Canadian Securities Administrators | Autorités canadiennes en valeurs mobilières

CSA Staff Notice and Request for Comment 25-304
Application for Recognition of New Self-Regulatory Organization

May 12, 2022

1. Background

Following extensive public consultations, the Canadian Securities Administrators (**CSA**) published CSA Position Paper 25-404 – *New Self-Regulatory Organization Framework* (**CSA Position Paper**), recommending amalgamation of the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) into a single self-regulatory organization (**SRO**), known at this time as New SRO, in order to provide a framework for efficient and effective regulation in the public interest, including an enhanced governance structure, improved investor protection and education, and strengthened industry proficiency. The CSA also recommended to amalgamate the two current investor protection funds, the Canadian Investor Protection Fund (**CIPF**) and the MFDA Investor Protection Corporation (**MFDA IPC**), into a single protection fund which will be independent from the New SRO. Amalgamation of the protection funds and related request for comment are addressed in a separate notice (CSA Staff Notice and Request for Comment 25-305).

IIROC and the MFDA have been working collaboratively to amalgamate their regulatory activities into the New SRO. IIROC and the MFDA have applied on behalf of the New SRO for its recognition as an SRO by the securities regulators in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Québec, Saskatchewan and Yukon (**Recognizing Regulators**).

The Recognizing Regulators are publishing for comment the following documents:

- **Appendix A** - Application for recognition of the New SRO (**Application**), which includes the below schedules:

  Schedule 1 – Draft By-Law Number 1 of the New SRO

  Schedule 2 – Draft Interim Rules of the New SRO[1]
  - i. Introduction
  - ii. Investment Dealer and Partially Consolidated Rules
  - iii. Mutual Fund Dealer Rules
  - iv. Mutual Fund Dealer Form 1
  - v. Universal Market Integrity Rules

  Schedule 3 – Draft Terms of Reference for New SRO's Investor Advisory Panel[2]

[1] Please refer to FAQs on Interim Rules at IIROC website (https://www.iiroc.ca/new-sro-interim-rules-frequently-asked-questions) or MFDA website (https://mfda.ca/new-sro-rules-faq/).

[2] Please refer to FAQs on New SRO IAP at IIROC website (https://www.iiroc.ca/new-sro-investor-advisory-panel-questions-answers) or MFDA website (https://mfda.ca/new-iap-faq/).

Schedule 4 – Québec Requirements (unofficial translation)

- **Appendix B** – Draft Recognition Order for the New SRO setting out the terms and conditions of recognition as well as reporting requirements for the New SRO. Following the comment process and resolution of any issues, each Recognizing Regulator will issue a substantially similar order recognizing the New SRO.

- **Appendix C** – Draft MOU among the Recognizing Regulators regarding oversight of the New SRO. The MOU includes detailed protocols for: Recognizing Regulators' non-objection process for certain changes to the New SRO governance structures; processes for the review and approval of the New SRO rules, policies and other similar instruments; and procedures for performance of periodic oversight reviews of the New SRO.

The above documents reflect the recommendations from the CSA Position Paper and provide the basis for an enhanced regulatory framework, which will include the following key features:

- Clarifying and reinforcing New SRO's public interest mandate;
- Improving New SRO's governance structure by ensuring the board of directors and board committees are composed of a majority of independent directors and independent chairs, and the governance committee is composed of all independent directors;
- Articulating clear criteria for independent directors;
- Ensuring New SRO's appropriate cooperation with the Recognizing Regulators, including alignment of strategic and business plans, annual statements of priorities and budgets;
- Transforming the current IIROC District Councils into Regional Councils to be tasked with an advisory role to staff of the New SRO on regional regulatory policy matters;
- Establishing formal investor engagement mechanisms such as an investor advisory panel and investor office and ensuring investors are represented on appropriate advisory committees; and
- Improving access to advice by providing an opportunity for introducing / carrying broker arrangements between mutual fund dealers and investment dealers

The Autorité des marchés financiers (**AMF**) is publishing simultaneously for comments its proposed transition plan for mutual fund dealers registered in Québec (**Québec MFDs**) and their registered individuals. Following the comment period, any required amendments with respect to the Québec MFDs and registered individuals will be incorporated into the Interim Rules of the New SRO to be effective upon the close of the amalgamation.

2. Recognition of the New SRO

The Application, published below, outlines how the New SRO will meet the criteria of recognition outlined in Schedule 1 to the Draft Recognition Order for the New SRO attached below in Appendix B.

3. Comment Process

We are seeking comments on all aspects of the New SRO Application and related documents. Please submit your written comments on or before June 27, 2022. If you are not sending your written representations by email, please send us an electronic file containing submissions provided (in Microsoft Word format).

Please address your submission to all of the CSA as follows:

Alberta Securities Commission

Autorité des marchés financiers

British Columbia Securities Commission

Manitoba Securities Commission

Financial and Consumer Services Commission of New Brunswick

Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador

Office of the Superintendent of Securities, Northwest Territories

Nova Scotia Securities Commission

Office of the Superintendent of Securities, Nunavut

Ontario Securities Commission

Prince Edward Island Office of the Superintendent of Securities

Financial and Consumer Affairs Authority of Saskatchewan

Office of the Yukon Superintendent of Securities

Please send your written representations only to the addresses below. Your written representations will be forwarded to the other CSA member jurisdictions. Your comments relating to the schedules will also be shared with IIROC and the MFDA.

The Secretary
Ontario Securities Commission
20 Queen Street West 22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

Me Philippe Lebel
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Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax : 514- 864-638
Email: consultation-en-cours@lautorite.qc.ca

Certain CSA jurisdictions require publication of the comments received during the comment period. All written comments received will be posted on the websites of each of the ASC at www.albertasecurities.com, the AMF at www.lautorite.qc.ca and the OSC at www.osc.gov.on.ca. Please do not include personal information directly in written representations to be published and state on whose behalf you are making the submission.

Questions

If you have any comments or questions, please contact any of the CSA staff listed below.

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To: Members of the Canadian Securities Administrators

Introduction

This letter sets out the joint application of the Investment Industry Regulatory Organization of Canada ("**IIROC**") and the Mutual Fund Dealers Association of Canada (the "**MFDA**", and together, the "**SROs**") to the Alberta Securities Commission; Autorité des marchés financiers; British Columbia Securities Commission; Manitoba Securities Commission; Financial and Consumer Services Commission of New Brunswick; Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador; Office of the Superintendent of Securities, Northwest Territories; Nova Scotia Securities Commission; Office of the Superintendent of Securities, Nunavut; Ontario Securities Commission; Prince Edward Island Office of the Superintendent of Securities; Financial and Consumer Affairs Authority of Saskatchewan; and Office of the Yukon Superintendent of Securities, which are collectively the "**Recognizing Regulators**" or members of the Canadian Securities Administrators (the "**CSA**"), to recognize the entity resulting from the amalgamation of IIROC and MFDA (the "**New SRO**") as a self-regulatory organization under applicable securities legislation (the "**Application**"). The New SRO will also be a regulation service provider ("**RSP**") under National Instrument 23-101 *Trading Rules* ("**NI 23-101**"), and an Information Processor (as defined under NI 21-101) for government and corporate debt securities, under applicable securities laws and NI 21-101.

Background

Subject to recognition by the Recognizing Regulators, and approval of the IIROC board of directors, the MFDA board of directors, and the members of the SROs, the SROs propose to consolidate their regulatory activities in the New SRO, through a legal amalgamation (the "**Amalgamation**"). The SROs will bring their memberships, assets, liabilities and legal and regulatory responsibilities, including memoranda of understanding, to the New SRO as a result of the Amalgamation. The main objective of creating the New SRO is to develop a regulatory framework that has a clear public interest mandate and fosters fair and efficient capital markets, by focusing on investor protection to promote public confidence and accommodating innovation and change. The Recognition Order will become effective upon the Amalgamation, at which time each of IIROC and the MFDA's existing recognition orders will be superseded and will no longer have any force or effect.

The New SRO will be created in a manner consistent with the CSA Position Paper 25-404 – *New Self-Regulation Organization Framework* (the "**Position Paper**", available in English and in French) and will reflect the CSA's vision to provide enhanced regulation of the investment industry. The terms of the Recognition Order being sought for the New SRO reflect the principles and approach of the Position Paper.

IIROC members will vote on the proposed amalgamation at a special meeting of members. MFDA members will vote on the proposed amalgamation at a special meeting of members.

Corporate Governance

The New SRO will be a non-share capital corporation under the *Canada Not-for profit Corporations Act* ("**CNCA**"). Its mandate is to act in the public interest by, without limitation:

(a) protecting investors from unfair, improper, or fraudulent practices by its Members (as defined below);

(b) fostering fair and efficient capital markets and promoting market integrity;

(c) fostering public confidence in capital markets;

(d) facilitating investor education;

(e) administering a fair, consistent and proportionate continuing education program for all Dealer Members and applicable approved persons;

(f) accommodating innovation and ensuring flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection;

(g) providing effective market surveillance;

(h) fostering efficient and effective cooperation and coordination with the Recognizing Regulators to ensure regulatory alignment;

(i) facilitating access to advice and products for investors of different demographics;

(j) recognizing and incorporating regional considerations and interests from across Canada;

(k) facilitating meaningful consultation and input from all types of Members and ensuring that investor perspectives are factored into the development and implementation of regulatory policies;

(l) administering robust, compliance, enforcement and complaint handling and resolution processes;

(m) contributing to financial stability, under the direction of the Recognizing Regulators; and

(n) administering effective governance and accountability to all stakeholders and preventing regulatory capture.

A draft of the initial By-law No. 1 of the New SRO ("**By-Law No. 1**") is attached hereto as Schedule 1.

The New SRO will initially have two classes of members, Dealer Members and Marketplace Members (collectively, "**Members**"), each class having equal voting rights and voting together.

Dealer Members of the New SRO will be investment dealers and/or mutual fund dealers registered under applicable Canadian securities legislation and accepted for membership by the Board. All current IIROC Dealer Members and MFDA Members will become Dealer Members of the New SRO automatically pursuant to the terms of the Amalgamation.

A Marketplace Member of the New SRO will be a marketplace that is:

(a) a recognized exchange or a commodity futures exchange registered in a jurisdiction of Canada;

(b) a recognized quotation and trade reporting system; or

(c) a person or company not included in clause (a) or (b) above that facilitates the trading of securities or derivatives in a jurisdiction of Canada; and

  (i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities or derivatives;

  (ii) brings together the orders for securities or derivatives of multiple buyers and sellers; and

  (iii) uses established non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade.

All current Marketplace Members of IIROC will become Marketplace Members of the New SRO automatically pursuant to the terms of the Amalgamation.

A Member may qualify as both a Dealer Member and Marketplace Member but shall only be entitled to one vote on any vote by Members, unless a vote of members by class is required.

New SRO Board

By-law No. 1 will establish a 15-member board of directors of the New SRO (the "**Board**"), comprised of the President and CEO of the New SRO (the "**CEO**"), six individuals representing the Members, and eight Independent Directors (as defined below). The roles of CEO and chair of the Board will be occupied by separate persons, and the chair of the Board must be an Independent Director. Pursuant to By-law No. 1, directors of the New SRO (each, a "**Director**") will serve for staggered two-year terms (with 7 or 8 elected each year), for a maximum of four consecutive terms (not including stub terms), however there will be no term limit for the CEO. The Board will develop, maintain and comply with diversity and inclusion policies aimed at increasing underrepresented groups on the Board.

The term "Independent Director" means a Director who has no direct or indirect material relationship with the New SRO or a member of the New SRO. The full definition of "Independent Director" is set out in By-law No. 1.

The New SRO Board Committees

The Board will initially appoint four standing committees: the Governance Committee, the Finance, Audit and Risk Committee, the Human Resources and Pension Committee and the Appointments Committee.

The Governance Committee (the composition of which is described below), in accordance with By-law No. 1, and considering the overall composition of the Board and its representation of the Canadian capital markets, will recommend as nominees for election as Directors those individuals that it considers qualified and desirable.

The Governance Committee will consider all relevant factors in nominating directors to seek to ensure that the composition of the Board: (a) complies with the requirements of By-Law No. 1 and the Recognition Order, (b) provides fair, meaningful and diverse representation, (c) reflects the regional diversity of the New SRO's stakeholders, (d) otherwise reflects, in the judgement of the Governance Committee, the appropriate balance of interests and perspectives of the Members and stakeholders, (e) consists of, in the judgement of the Governance Committee, a reasonable number of Directors with relevant experience with investor protection issues and (f) addresses, in the judgement of the Governance Committee, actual, potential or perceived conflicts of interest arising from any relationship between a Member and a Director. The Governance Committee will consider, for each potential Director:

- appropriate regional representation across Canada;
- appropriate mix of skills, competencies, individual diversity and characteristics to contribute to a well-functioning Board able to service its mandate;
- the business interests of the candidate or entities with which the candidate is associated;
- the extent of overlap and/or integration of the boards and/or management between members and entities with which the candidate is associated;
- in the case of Independent Directors, whether the candidate would have met the test to be an Independent Director; and
- the appropriate resolution of any actual, potential or perceived conflicts of interest.

In addition, and in respect of Board nominees, the Governance Committee will focus on qualities such as integrity, business judgement and acumen, capital markets expertise and other relevant business, professional or board expertise, as well as ensuring that nominees are appropriate in recognition of the status of the New SRO as a self-regulatory organization in the various Canadian jurisdictions.

The Governance Committee will recommend, and the Board may appoint, directors to fill vacancies that arise between annual Members' meetings, ensuring that any such appointees maintain the Board composition specified by By-Law No. 1.

The initial Directors and chair of the Board (the "**Chair**"), proposed by the Special Joint Committee formed by IIROC, the MFDA and the CSA, will be described in the joint management information circular of IIROC and the MFDA.

The Governance Committee will periodically review the efficacy of the New SRO's governance practices.

The mandate of the Governance Committee will be to identify and recommend to the Board qualified nominees for election to the Board, as described above. The Governance Committee will be composed of not less than five directors, and may include the Chair of the Board. All of the members of the Governance Committee will be Independent Directors.

The mandate of the Finance, Audit and Risk Committee (the "**FAR Committee**") will be to assist the Board in its oversight of the integrity and effectiveness of the New SRO's accounting and financial reporting processes; the qualifications, independence and performance of the New SRO's external and internal auditors; the New SRO's processes relating to its internal control systems and security of information; and the New SRO's policies and processes for risk management. The FAR Committee will be composed of at least five Directors, a majority of which (including the chair of such committee) will be Independent (as defined by By-Law No. 1).

The mandate of the Human Resources and Pension Committee (the "**HR Committee**") will be to ensure that the New SRO can attract and retain personnel with the appropriate qualifications and experience to achieve its mandate, goals and strategic objectives by offering compensation, pension and benefit plans that are competitive, motivating and rewarding and assisting the Board in its oversight of the New SRO's human resources policies and procedures, benefits and pension plans and with ensuring regulatory compliance thereof. The HR Committee will be composed of at least five Directors, a majority of which (including the chair of such committee) will be Independent.

The mandate of the Appointments Committee (the "**Appointments Committee**") will be to appoint members to the New SRO hearing committees (the "**District Hearing Committees**"). Members of District Hearing Committees will sit as hearing panel members in the Districts (as defined in By-Law No. 1). The Appointments Committee will be composed of at least seven Directors, including the President, and a majority of which (including the chair of such committee) will be Independent. The Appointments Committee will always be comprised of an uneven number of Directors.

National Council and Regional Councils

The New SRO will have a National Council and seven Regional Councils comprised of Dealer Members from each Region (as defined in By-Law No. 1).

The Regional Councils will have an advisory role and provide regional perspectives and recommendations on regulatory policy matters to staff of the New SRO. In addition, the Regional

Councils will advise the New SRO on industry trends and issues to ensure that the New SRO is proactive in dealing with emerging issues.

The National Council will be comprised of the Chairs and Vice-Chairs of the Regional Councils and act as a forum for cooperation and consultation among the Regional Councils and provide recommendations on regulatory policy matters to the CEO and the Chair.

Functions currently residing with IIROC District Councils relating to hearing committee nominations, and MFDA Regional Councils with respect to members sitting as hearing panel members, will not reside within the new council structure, as the Appointments Committee will have responsibility for appointing members to District Hearing Committees.

Advisory Committees

Advisory committees will provide advice to staff of the New SRO and report to the CEO. Each will be asked to conduct an annual "self-assessment" and the Board will conduct a biennial review of the overall advisory committee structure, to ensure that such committees are relevant and providing meaningful advice in a timely and effective manner.

The other existing advisory committees of the SROs will continue after the completion of the amalgamation on an interim basis.[1] The Board will evaluate and make changes to the advisory committee structure and/or mandates to ensure a consolidated approach.

Investor Engagement

A separate investor office within the New SRO that is prominently positioned, easily identifiable and accessible to investors will be established to support rule development and provide investor education or outreach with the goal of improving investor protection (the "**Investor Office**").

The New SRO will also have an investor advisory panel to provide independent research or input on regulatory and/or public interest matters (the "**Investor Advisory Panel**"). The Board will be required to meet with the Investor Advisory Panel at least annually.

The New SRO will create a mechanism to formally engage directly with investor groups (on an advisory basis) to obtain broader input on the design and implementation of applicable policy proposals. The New SRO will also maintain a whistleblower program.

A draft of the terms of reference of the New SRO's Investor Advisory Panel is attached hereto as Schedule 3.

Member Voting Rights

In respect of matters to be voted upon by Members (including the election of Directors), all Members will vote together and be entitled to one vote per Member. In accordance with the CNCA,

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[1] Existing advisory committees of the MFDA and IIROC can be found on their respective websites: IIROC Advisory Committees and the MFDA Policy Advisory Committee.

certain matters such as amendments to the New SRO's articles of amalgamation or by-laws, including creating a new class of members, and certain fundamental transactions such as an amalgamation or plan of arrangement of New SRO or disposition of all or substantially all of its assets, will require approval by a two-thirds vote of the Members. A vote of members by class may be required for certain amendments to the New SRO's articles of amalgamation or by-laws in accordance with the CNCA, but will not be required to create a new class of members.

Conflicts of Interest

The governance structure, the rule-making and policy development process, the hearing committee process, and the disciplinary panel structure will all reflect the New SRO's efforts to balance its public interest mandate and the views of its members and persons subject to its jurisdiction ("**Regulated Persons**") as a self-regulatory organization.

The New SRO will have policies and procedures managing actual, potential or perceived conflicts of interest of its officers, employees and members of its disciplinary panels, as reflected in the Employee Code of Conduct (the "**Employee Code**"). The New SRO will undertake a review of each division where regulatory decisions are made by staff and will identify specific risk areas associated with conflicts of interest. The Employee Code will contain policies dealing with conflicts of interest in those areas where employees are required to make decisions on behalf of the New SRO as part of their regulatory responsibilities. In addition, internal policies and procedures of each division where employees exercise decision-making authority will contain more specific guidelines on how to comply with the Employee Code. Generally, these deal with disclosure of any conflicts with Regulated Persons and the allocation of responsibilities among staff that minimizes potential conflicts arising. The Employee Code will be approved by the Board and acknowledged by officers and employees initially and annually. The policies and procedures of the New SRO will require that the Employee Code be reviewed at least annually to ensure that it continues to appropriately meet its objectives.

The New SRO will also have a written policy managing conflicts of interest of members of its Board, which will be acknowledged by directors initially and on an annual basis. This policy will be reviewed periodically to ensure that it continues to appropriately meet its objectives and complies with the CNCA.

Fees

The New SRO will continue the project commenced during the amalgamation planning process to develop an appropriate fee model for the New SRO following the amalgamation. Development of a new fee model will be a complex exercise and will therefore require expert professional advice. Implementation of any such fee model will involve consultation with Members and other stakeholders and will be subject to a public comment process and approval by the Recognizing Regulators.

The following principles will be applied in a fee model adopted by the New SRO:

- All fees imposed by the New SRO must be equitably allocated and be proportionate to Members' activities.

- Fees must not have the effect of creating unreasonable barriers to access, especially for small and independent Members.
- The process for setting fees must be fair and transparent.
- The New SRO must operate on a cost-recovery basis.

Upon the creation of the New SRO, and on an interim basis, the existing fee structures and models of IIROC (with respect to current IIROC Members) and the MFDA (with respect to current MFDA Members), will initially be maintained and administered by the New SRO, with necessary modifications, with Members paying fees under the relevant fee structures and models. Both fee models are intended to be neutral and are based on cost recovery.

Access

The existing criteria for access to membership and the provision of regulation services will be preserved in the New SRO, as initially will the processes for obtaining such access. The New SRO will have reasonable written criteria that permit all persons or companies that satisfy the criteria to access the New SRO's regulatory services. The access criteria and the process for obtaining access will be fair and transparent. Any changes to the criteria or process for obtaining access will be developed and implemented in a fair and transparent manner and subject to Board approval as well as approval by the Recognizing Regulators.

Pursuant to the Amalgamation, current members of the MFDA or IIROC will be Members of the New SRO and no additional acceptance or approval requirements will be required.

Financial Viability

The New SRO will be a non-share capital, membership-based, not-for-profit corporation. As with IIROC and the MFDA (as well as many of the Recognizing Regulators), its financial model will be based on the collection of fees from Members in order to recover the costs incurred in its regulatory activities.

Upon completion of the Amalgamation, the New SRO will own all of the assets (and will assume all of the liabilities) of the MFDA and IIROC, including the balances in the MFDA Discretionary Fund and the IIROC Restricted Fund (which will be transferred to the New SRO Restricted Fund and used solely for prescribed purposes as described in the Recognition Order). The costs relating to the amalgamation of IIROC and the MFDA and start-up of the New SRO are being borne by IIROC and the MFDA. In accordance with the draft Recognition Order, the New SRO must operate on a cost recovery basis and seek authorization for any increase in fees for Dealer Members that are not registered as both investment dealers and mutual fund dealers related to the costs of creating the New SRO.

Capacity to Perform Regulation Functions

Recognition Order

The independence, mandate and obligations of the New SRO will be prescribed as terms and conditions of its Recognition Order and Delegation Rulings. As with IIROC and the MFDA, the New SRO must seek input from the Recognizing Regulators before finalizing its strategic and business plans, annual statements of priorities and budgets. The Recognizing Regulators will conduct an annual risk-based oversight review, which will enable the Recognizing Regulators to ensure that the New SRO acts in a manner consistent with the public interest in carrying out its mandate as a self-regulatory organization.

Regulation Services

The New SRO will seek to protect investors, foster investor confidence and enhance the fairness and efficiency of Canadian capital markets through the provision of effective self-regulation of Members, their representatives and other persons subject to the New SRO's jurisdiction. As a neutral, cost-effective and responsive self-regulatory organization, the New SRO will not unreasonably discriminate between Members. The New SRO will assume all of the regulatory responsibilities and perform, on a consolidated basis, all of the regulatory services currently being performed by IIROC and the MFDA.

Under the applicable National Instruments, orders granted under the National Instruments by certain securities commissions, and its regulation service agreements with Marketplace Members, IIROC applies the Universal Market Integrity Rules and Policies ("**UMIR**") to Marketplace Members and Dealer Members. Subscribers of a Marketplace Member alternative trading system ("**ATS**") that are not Dealer Members are subject to UMIR and the jurisdiction of IIROC, as IIROC's agreements with Marketplace Member ATSs require this. Upon the Amalgamation, these Instruments, orders and regulation service agreements will apply to the New SRO by operation of law.

Transitional Jurisdiction

The New SRO will assume jurisdiction over the conduct of Dealer Members and over the trading conduct of all members, users and subscribers of Marketplace Members, including for investigations or enforcement actions in progress at the time the New SRO commences its regulatory activities.

Capacity and Integrity of Systems

The New SRO will perform its regulation functions using the information technology systems currently used by IIROC and the MFDA, including those systems currently provided to IIROC and the MFDA by various external service providers. Relevant existing service agreements between IIROC and the MFDA and their respective service providers will continue with New SRO.

The New SRO will continue to perform its market surveillance regulation function using the systems currently used by IIROC.

Capacity Planning and Management

The New SRO will ensure that information technology systems capacity planning is undertaken on a regular basis and system upgrades and storage are managed carefully. With respect to the market surveillance regulation functions, New SRO will continue the IIROC practice of regularly forecasting its expected data volumes.

Development and Testing Methodologies

The New SRO will use development and testing cycles that do not interfere with its operating systems. The New SRO will regularly review and update its development and testing methodologies, either internally or through its service providers.

System Vulnerability

The level of exposure to threats and system vulnerability for the New SRO will vary based on whether the system is critical or not. Sensitive regulatory data will be kept secure and confidential, within the organization and in relation to service providers. The New SRO will continue the SROs' practice and ensure that relevant services providers implement appropriate confidentiality and firewall provisions.

Contingency Planning, Disaster Recovery & Business Continuity Plans

IIROC and the MFDA have written contingency, business continuity and disaster recovery plans, which include specific criteria for all critical system applications. Upon the Amalgamation, the New SRO will continue to operate under these or new consolidated New SRO plans. As with IIROC, all New SRO market surveillance systems will have full redundancy with two live sites running in parallel and personnel backup in multiple offices of the New SRO.

Rules

Initially, it is the intention of the New SRO to adopt and administer interim rules which will incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-laws, rules and policies of the MFDA (collectively, the "**Interim Rules**"). The Interim Rules will include: (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules.

The Interim Rules, which will be subject to public consideration and comment, will also include new Rule proposals to: (i) amend the current IIROC proficiency requirements to permit firms registered as both an investment dealer and a mutual fund dealer to employ mutual funds only licensed individuals without having to upgrade their proficiencies to those required of a securities licensed individual and (ii) permit introducing/carrying broker arrangements between mutual fund dealers and investment dealers. The New SRO will review the Mutual Fund Dealer Rules, Investment Dealer and Partially Consolidated Rules and the UMIR in order to propose changes to harmonize rules, policies and related processes. A draft of the Interim Rules is attached hereto as Schedule 2.

Post-amalgamation proposals to replace or amend the Interim Rules would be submitted to the Recognizing Regulators for approval in accordance with the procedures established in the Memorandum of Understanding among Recognizing Regulators regarding oversight of New SRO, on terms and conditions reflective of the Position Paper, between the New SRO, as a self-regulatory organization and RSP, and the applicable Recognizing Regulators. The New SRO will, subject to the terms and conditions of the Recognition Order and the jurisdiction and oversight of the relevant Recognizing Regulators, establish rules, regulations or policies that promote the public interest, and are designed to:

- ensure compliance with applicable securities legislation,
- prevent fraudulent and manipulative acts and practices,
- promote just and equitable principles of trade and the duty of Dealer Members to act fairly, honestly and in good faith with their clients,
- promote Member education,
- foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities and derivatives,
- foster fair, equitable and ethical business standards and practices,
- promote access to advice in different geographic zones, including the servicing of clients in both urban and rural settings,
- allow Members to develop and make use of technological advancements to achieve greater efficiencies and productivity, while mitigating any risks to the investors and the public,
- promote the protection of investors,
- are scalable and proportionate to different types and sizes of Dealer Member firms and their respective business models, and
- provide for appropriate discipline of those whose conduct it regulates.

The Interim Rules, and any replacement of thereof, will not unreasonably discriminate among those subject to its regulation nor impose any unnecessary burden or constraint on competition or innovation. The Interim Rules and the administration thereof will not impose costs or restrictions on the activities of market participants that are disproportionate or contrary to the public interest.

Continuing Education

The pre-amalgamation MFDA and IIROC continuing education requirements will continue to apply to Dealer Members of the New SRO who are registered as mutual fund dealers and Dealer Members of the New SRO who are registered as investment dealers, respectively. The New SRO

will work towards the development and implementation of a harmonized continuing education program for all Dealer Members that is fair, consistent and proportionate.

Dealer Members of the New SRO registered as mutual fund dealers will continue to be exempted from the New SRO's continuing education requirements for their activities in Québec, considering that the Chambre de la sécurité financière (CSF) is responsible for regulating the continuing education of mutual fund dealing representatives in Québec.

Financial Statements

The New SRO will provide to the Recognizing Regulators its financial statements and other financial reporting in accordance with the requirements of its Recognition Order, including audited annual financial statements.

Discipline Process

The New SRO's rules for the discipline of persons or companies subject to its regulation will be based on those of the MFDA and IIROC. The process for disciplining Members and others will be fair, transparent and will provide for due process. Any reviewable decision by the New SRO, including any disciplinary or enforcement decision, will be reviewable by the Recognizing Regulators having appropriate jurisdiction.

Québec Requirements

The New SRO will comply fully with section 69 of the Act respecting the regulation of the financial sector, CQLR c E-6.1.: the constating documents, by-laws and rules of the New SRO will provide that the power to make decisions relating to the supervision of the Corporation's activities in Québec will be exercised mainly by persons residing in Québec.

Complaints and inquiries relating to individuals and Member firms in Québec received by the New SRO will be referred to staff of the New SRO in Montréal for case assessment, or will be transferred, as appropriate, to the Autorité des marchés financiers or to the Chambre de la sécurité financière, according to the terms of cooperative agreements.

The members of the hearing panels of the New SRO in respect of matters involving Québec residents will be Québec residents.

Firms registered as mutual fund dealers in Québec (Québec MFDs) will join the New SRO as members. However, they will benefit from a transition period for their activities in Québec.

During this transition period, the New SRO will meet the requirements provided in Schedule 4. Québec MFDs will participate as members in the consultations and committees that will be constituted by the New SRO.

Fees payable by Québec MFDs to the New SRO shall be prorated to the services offered to them by New SRO.

Information Sharing and Regulatory Cooperation

The New SRO will provide all necessary notices and information to each Recognizing Regulator except as may be otherwise indicated in an applicable recognition order or directions provided by such Recognizing Regulator.

As specified in the draft Recognition Order, the New SRO will, subject to applicable law, share information with the Recognizing Regulators, exchanges, SROs, clearing agencies, financial intelligence or law enforcement agencies or authorities, banking and financial services authorities and investor protection or compensation funds. The New SRO will continue to abide by the terms of the information sharing agreements previously entered into by IIROC and the MFDA.

Sincerely,

"Andrew J. Kriegler" ***"Mark T. Gordon"***

BY-LAW NO. 1

being a General By-law of

[New SRO]

(hereinafter referred to as the **"Corporation"**)

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ARTICLE 1
INTERPRETATION

Section 1.1 Definitions

In this By-law, unless the context otherwise specifies or requires:

"**Act**" means the *Canada Not-for-profit Corporations Act*, S.C. 2009, c. C-23 and the regulations thereto, as from time to time amended and every statute that may be substituted therefor and, in the case of such substitution, any references in the By-laws to provisions of the Act shall be read as references to the substituted provisions therefor in the new statute or statutes.

"**affiliated entity**" has the meaning ascribed to it in subsection 1.3(1) of National Instrument 52-110 *Audit Committees*.

"**Amalgamation**" means the amalgamation of IIROC and the MFDA to form the Corporation pursuant to section 204 of the Act.

"**Articles**" means the articles of amalgamation of the Corporation and includes any articles of amendment.

"**Associate**", where used to indicate a relationship with any person, means:

(a) any company of which such person beneficially owns, directly or indirectly, voting securities carrying more than ten percent (10%) of the voting rights attached to all voting securities of the company for the time being outstanding;

(b) a partner of that person;

(c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;

(d) any relative of that person who resides in the same home as that person;

(e) any person who resides in the same home as the person and to whom that person is married or with whom that person is living in a conjugal relationship outside of marriage; or

(f) any relative of a person mentioned in clause (e) above, who has the same home as that person.

"**auditor**" of the Corporation means a public accountant, as defined in the Act, appointed for the Corporation.

"**By-laws**" means this By-law and any other by-law of the Corporation from time to time in force and effect.

"**Board**" means the Board of Directors of the Corporation.

"**Chair**" means the Independent Director elected by the Board to act as its chair.

"**control**" has the meaning ascribed to it in section 1.4 of National Instrument 45-106 *Prospectus Exemptions*.

"**Corporation**" means **[New SRO]** and, for the purposes of Section 1.3, includes either of its predecessors and any affiliated entity.

"**Dealer Member**" means a Member that is registered as an investment dealer or a mutual fund dealer in accordance with securities legislation.

"**Director**" means a member of the Board.

"**District**" means a geographic area in Canada designated as a district of the Corporation pursuant to Section 11.1.

"District Hearing Committee" means each of the hearing committees created in accordance with Article 11.

"**executive officer**" has the meaning ascribed to it in section 1.1 of National Instrument 52-110 *Audit Committees*.

"**Form**" means a form prescribed or provided for by the By-Laws or the Rules.

"**IIROC**" means the Investment Industry Regulatory Organization of Canada, a predecessor corporation to the Corporation.

"**immediate family member**" has the meaning ascribed to it in section 1.1 of National Instrument 52-110 *Audit Committees*.

"**Indemnified Party**" means each Protected Party and any other person who has undertaken or is about to undertake any liability on behalf of the Corporation, or any entity controlled by it, which the Corporation determines to indemnify in respect of such liability and their respective heirs, executors, administrators, and estates and effects, respectively.

"**Independent Director**" means a Director who is Independent within the meaning of Section 1.3.

"**Industry Agreement**" means the agreement dated ■, 2022 made between the Corporation and the IPF, as the same may be amended or replaced from time to time.

"**Information Processor Recognition Orders**" means the recognition order obtained from the Autorité des marchés financiers and the designation orders and undertakings governing the Corporation's designation as information processor for government and corporate debt securities.

"**IPF**" means the ■.

"**Marketplace**" means:

(a) a recognized exchange or a commodity futures exchange registered in a jurisdiction of Canada;

(b) a recognized quotation and trade reporting system; or

(c) a person or company not included in clause (a) or (b) above that facilitates the trading of securities or derivatives in a jurisdiction of Canada; and

(i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities or derivatives;

(ii) brings together the orders for securities or derivatives of multiple buyers and sellers; and

(iii) uses established non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade.

"**Marketplace Member**" means a Member that is a Marketplace.

"**Member**" means a person admitted to membership in the Corporation or who was a member of IIROC or the MFDA at the time of the Amalgamation, and who has not ceased, resigned or terminated membership in the Corporation in accordance with the provisions of Article 3.

"**MFDA**" means the Mutual Fund Dealers Association of Canada, a predecessor corporation to the Corporation.

"**National Council**" means the national council created in accordance with Article 10.

"**Non-Independent Director**" means a Director who is not an Independent Director.

"**President**" means the president and chief executive officer of the Corporation appointed in accordance with Section 8.3.

"**Protected Party**" means every current and former Director, officer, employee, committee member (whether a committee of the Board or other committee of the Corporation), and his or her heirs, executors, administrators, estate and effects or any other person acting on behalf of the Corporation.

"**Recognition Orders**" means the recognition orders for the Corporation issued and approved by each securities regulatory authority, recognizing the Corporation as a self-regulatory organization.

"**Region**" means a geographic area in Canada designated as a region of the Corporation pursuant to Section 10.1.

"**Regional Council**" means each of those councils created in accordance with Article 10.

"**Regulated Persons**" means persons who are or were formerly (i) Dealer Members, including 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 representatives as designated in the Rules of any of the foregoing, and (iv) other persons subject to the jurisdiction of the Corporation.

"**Restricted Fund**" means monetary sanctions received by the Corporation.

"**Rules**" means the Rules made pursuant to Section 14.1.

"**Significant Interest**" means in respect of any person the holding, directly or indirectly, of the securities of such person carrying in aggregate 10% or more of the voting rights attached to all of the person's outstanding voting securities.

"**Vice-Chair**" means a Director elected by the Board to act as its vice-chair.

Section 1.2 Interpretation

(1) Unless otherwise defined or interpreted in this By-law or the Rules, every term used in this By-law or the Rules that is:

(a) defined in subsection 1.1(3) of National Instrument 14-101 – *Definitions* has the meaning ascribed to it in that subsection; and

(b) defined or interpreted in National Instrument 21-101 - *Marketplace Operation* has the meaning ascribed to it in that National Instrument.

(2) The provisions of this By-law and the Rules are subject to applicable laws. Subject to the By-laws and the Rules, any reference in this By-law or the Rules to a statute or a National Instrument refers to such statute or National Instrument and all rules and regulations made under it, as it may have been or may from time to time be amended or re-enacted.

(3) In this By-law and the Rules and in all other By-laws hereafter passed and the Rules from time to time, unless the context otherwise requires, words importing the singular number or the masculine gender shall include the plural number or the feminine gender, as the case may be, and vice versa, and references to persons shall include, individuals, corporations, limited partnerships, general partnerships, joint ventures, associations, companies, trusts, societies or other entities, organizations and syndicates whether incorporated or not, trustees, executors, or other legal personal representatives, and any government or agency thereof. In the event of any dispute as to the meaning of the Articles, By-laws or Rules, the interpretation of the Board shall be final and conclusive.

Section 1.3 Meaning of Independence

(1) The term "Independent Director" means a Director who has no direct or indirect material relationship with the Corporation or a Member.

(2) For the purposes of subsection (1), a "material relationship" is a relationship which could be reasonably expected to interfere with the exercise of a Director's independent judgment.

(3) Despite subsection (1), the following individuals are considered to have a material relationship with the Corporation or a Member:

(a) an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;

(b) an individual whose immediate family member is, or has been within the last three years, an executive officer or non-independent director of the Corporation;

(c) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation's current executive officers serves or served at that same time on the entity's compensation committee;

(d) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12 month period within the last three years;

(e) an individual who is, or has been within the last three years, a partner, director, officer, employee, or person acting in a similar capacity of:

(i) a Member,

(ii) an Associate of a Member, or

(iii) an affiliated entity of a Member, and

(f) an individual who is, or has been within the last three years, an Associate of a partner, director, officer, employee, or person acting in a similar capacity of a Member.

(4) For the purposes of paragraph (3)(d), direct compensation does not include:

(a) remuneration for acting as a member of the Board or of any Board committee of the Corporation, and

(b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

(5) Despite subsection (3), an individual will ordinarily not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member:

(a) has previously acted as an interim chief executive officer of the Corporation, or

(b) acts, or has previously acted, as a chair or vice-chair of the Board or of any Board committee of the Corporation on a part-time basis.

(6) If, despite the three-year cooling-off period described in sections 3(e) and (f), the nature or duration of an individual's relationship with a Member, its Associates, or its affiliated entities could be reasonably expected to interfere with the exercise of that individual's independent judgment, then a sufficiently longer cooling-off period from the Member, Associate, and affiliated entity is required for that individual to be considered an Independent Director.

(7) Despite any determination made under sections (2) to (6), an individual is considered to have a material relationship with the Corporation if the individual:

(a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any subsidiary entity of the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board or any Board committee, or as a part-time chair or vice-chair of the Board or any Board committee; or

(b) is an affiliated entity of the Corporation or any of its subsidiary entities.

(8) For the purposes of section (7), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by:

(a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

(b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any subsidiary entity of the Corporation.

(9) For the purposes of section (7), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

ARTICLE 2
AFFAIRS OF THE CORPORATION

Section 2.1 Public Interest Mandate

The Corporation shall act in the public interest by, without limitation:

(a) protecting investors from unfair, improper, or fraudulent practices by its Members;

(b) fostering fair and efficient capital markets and promoting market integrity;

(c) fostering public confidence in capital markets;

(d) facilitating investor education;

(e) administering a fair, consistent and proportionate continuing education program for all Dealer Members and applicable Approved Persons;

(f) accommodating innovation and ensuring flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection;

(g) providing effective market surveillance;

(h) fostering efficient and effective cooperation and coordination with each securities regulatory authority to ensure regulatory alignment;

(i) facilitating access to advice and products for investors of different demographics;

(j) recognizing and incorporating regional considerations and interests from across Canada;

(k) facilitating meaningful consultation and input from all types of Members and ensuring that investor perspectives are factored into the development and implementation of regulatory policies;

(l) administering robust, compliance, enforcement and complaint handling and resolution processes;

(m) contributing to financial stability, under the direction of the securities regulatory authorities; and

(n) administering effective governance and accountability to all stakeholders and preventing regulatory capture.

Section 2.2 Seal

The Corporation may adopt a seal by resolution of the Board.

Section 2.3 Head Office

Until changed in accordance with the Act, the head office of the Corporation shall be in the City of Toronto, in the Province of Ontario.

Section 2.4 Financial Year

Until changed by the Board, the financial year of the Corporation shall end on the last day of March in each year.

Section 2.5 Execution of Instruments

Transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any two officers of the Corporation appointed in accordance with Article 8 of this By-law. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring the same, but it is not necessary to bind the Corporation.

Section 2.6 Banking Arrangements

The banking arrangements of the Corporation including, without limitation, the borrowing of money and the giving of security therefor, shall be transacted with such banks, trust companies or other bodies corporate or organizations as may from time to time be designated by or under the authority of the Board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the Board may from time to time prescribe or authorize.

Section 2.7 Voting Rights In Other Bodies Corporate

Any two officers of the Corporation appointed in accordance with Article 8 of this By-law may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favour of such person or persons as may be determined by the officers executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

Section 2.8 Divisions

In addition to any other powers of the Board, the Board may, subject to the terms of the Recognition Orders and without further approval, cause the operations of the Corporation or any part thereof to be divided or segregated into one or more divisions upon such basis, including without limitation, character or type of operations, or geographical regions as the Board may consider appropriate in each case. From time to time the Board, or if authorized by the Board, the President, may authorize, upon such basis as may be considered appropriate in each case:

(a) *Sub-Division and Consolidation*: The further division of the operations of any such division into sub-units and the consolidation of the operations of any such divisions and sub-units;

(b) *Name*: The designation of any such division or sub-unit by, and the carrying on of the operations of any such division or sub-unit, under a name other than the name of the Corporation; provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and

(c) *Officers*: The appointment of officers for any such division or sub-unit, the determination of their powers and duties, and the removal of any such officer so appointed without prejudice to such officer's rights under any employment contract or in law, provided that any such officers shall not, as such, be officers of the Corporation, unless expressly designated as such in accordance with Article 8 of this By-law.

Section 2.9 Quebec Activities

The constating documents, By-laws and Rules of the Corporation will allow that the power to make decisions relating to the supervision of the Corporation's activities in Quebec will be exercised mainly by persons residing in Quebec.

ARTICLE 3
CONDITIONS OF MEMBERSHIP

Section 3.1 Entitlement

The Board shall, in its discretion, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all issues pertaining to eligibility for membership in accordance with the By-laws and Rules of the Corporation. The Board may, by the affirmative vote of a majority of the Directors at a meeting of the Board and confirmed by the Members in accordance with Article 18, amend the By-law and Articles to add additional classes of Members and determine the rights and obligations pertaining to any added class. Initially there shall be two classes of Members, being (i) Marketplace Members; and (ii) Dealer Members.

Section 3.2 Dealer Members

Subject to the By-laws, the Articles, and the Act, Dealer Members shall be entitled to the rights and entitlements, and shall be subject to the obligations, attaching to all Members.

Section 3.3 Marketplace Members

Subject to the By-laws, the Articles, and the Act, Marketplace Members shall be entitled to the rights and entitlements, and shall be subject to the obligations, attaching to all Members.

Section 3.4 Fees

Membership and other fees and assessments may be established by the Board in the amounts and in accordance with the terms and conditions established by or under the authority of the Board. Fees shall be imposed on an equitable basis and, as a matter of best efforts, on a cost recovery basis to the extent practicable.

Section 3.5 Process for Approval for Membership of Dealer Members

(1) An application for membership must be submitted to the Corporation in the form and executed in the manner prescribed by or under the authority of the Board, and shall be accompanied by such fees, information and documents as the Corporation may require.

(2) Any firm shall be eligible to apply for membership as a Dealer Member if:

(a) It is formed under the laws of one of the provinces or territories of Canada and, where the firm is a corporation, it is incorporated under the laws of Canada or one of its provinces or territories;

(b) It carries on, or proposes to carry on, business in Canada as an investment dealer or mutual fund dealer, as applicable, and is registered or licensed in each jurisdiction in Canada where the nature of its business requires such registration or licensing, and is in compliance with such legislation and the requirements of any securities commission having jurisdiction over the applicant; and

(c) Its directors, officers, partners, investors and employees, and its holding companies, affiliated entities and related companies (if any), would comply with the By-laws and Rules of the Corporation that would apply to them if the applicant were a Dealer Member.

(3) An application for membership shall be accompanied by a non-refundable application review deposit in an amount to be determined by the Board, to be credited towards the annual fee paid by the Member in the event that the application is approved by the Board. Where, for any reason that cannot reasonably be attributed to the Corporation or its staff, the application process (other than an application of an alternative trading system) has not been completed within six months from the date the application was accepted for review by the Corporation, the deposit shall be forfeited to the Corporation and the application shall be required to be resubmitted with a new nonrefundable application review deposit. For purposes of this Section, the application process shall be considered to be completed when Corporation staff recommends to the Board the approval or rejection thereof.

(4) If in connection with the review or consideration of any application for membership, the Board is of the opinion that the nature of the applicant's business, its financial condition, the conduct of its business, the completeness of the application, the basis on which the application was made or any Corporation review in respect of the application in accordance with the By-laws and Rules of the Corporation has required, or can reasonably be expected to require, excessive attention, time and resources of the Corporation, the Board may require the applicant to reimburse the Corporation for some or all of its costs and expenses which are reasonably attributable to such excessive attention, time and resources or provide an undertaking or security in respect of such reimbursement. If an applicant is to be required to make such reimbursement of costs and expenses, the Corporation shall provide to the applicant a breakdown and explanation of such costs and expenses in sufficient detail to permit the applicant to understand the basis on which the costs and expenses were or are to be calculated.

(5) The process for review and approval of the application for membership shall be determined by or under the authority of the Board, and the Corporation shall make a preliminary review of the same and either:

(a) Where the application is incomplete, provide the applicant with a deficiency letter listing the items missing from or incomplete in the application, and, once Corporation staff have determined that the deficiencies have been addressed, perform a compliance review as referred to in Section 3.5(5)(b); or

(b) Where the application is complete, perform a compliance review and either:

(i) If such review discloses substantial compliance and willingness to comply with the requirements of the By-laws and Rules of the Corporation and approval of the application is considered to be in the public interest, forward a Corporation staff recommendation to approve the application to the Board for consideration along with the membership application; or

(ii) If such review discloses any substantial non-compliance or unwillingness to comply with the requirements of the By-laws and Rules of the Corporation, notify the applicant as to the nature of such non-compliance or unwillingness to comply and request that the application for membership be amended in accordance with the notification of the Corporation and refiled or be withdrawn. Once Corporation staff have determined that the necessary amendments have been made to the refiled application for membership, forward a Corporation staff recommendation to approve the application to the Board for consideration along with the membership application. If the applicant declines to amend or withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the Board for consideration along with the membership application and provide a copy of the recommendation to the applicant; or

(iii) If such review indicates that approval of the application is not in the public interest, notify the applicant as to the nature of the public interest concerns and request that the application for membership be withdrawn. If the applicant declines to withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the Board for consideration along with the membership application and provide a copy of the recommendation to the applicant.

(6) The membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, shall commence once the Board receives:

(a) The membership application from Corporation staff; and

(b) The Corporation staff recommendation to either approve or refuse the application pursuant to Section 3.5(5).

(7) The Board shall, in its discretion and pursuant to the membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all applications for membership. The applicant and Corporation staff shall have an opportunity to be heard in respect of any decision proposed to be made under this Section 3.5(7).

(8) If the Board approves an application subject to terms and conditions as determined by or under the authority of the Board or refuses an application, the applicant shall be provided with a statement of the grounds upon which the Board has approved the application subject to terms and conditions or refused the application, and the particulars of those grounds.

(9) The Board may as it considers appropriate vary or remove any such terms and conditions as may have been imposed on an applicant, if such terms and conditions are or are no longer, as the case may be, necessary to ensure that the Corporation's public interest mandate or the By-laws and Rules will be complied with by the applicant. In the event that the Board proposes to vary terms and conditions in a manner which would be more burdensome to the applicant, the provisions of Section 3.5(8) shall apply in the same manner as if the Board was exercising its powers thereunder in regard to the applicant.

(10) If, pursuant to the provisions of Section 3.5(8), the Board approves an application subject to terms and conditions or refuses an application, the Board may order that the applicant may not apply for removal or variation of terms and conditions or reapply for approval, for such period as the Board provides.

(11) Actions upon Approval of Application:

(a) If and when the application is approved by the Board, the Corporation shall compute the amount of the annual fee to be paid by the applicant.

(b) If and when the application has been approved by the Board, and the applicant has, if required to do so, been duly licensed or registered under applicable law of the province or provinces or territories in Canada in which the applicant carries on or proposes to carry on business, and upon payment of the balance of the entrance and annual fees, the applicant shall become and be a Dealer Member; and

(c) The Corporation shall keep a register of the names and business addresses of all Dealer Members and of their respective annual fees. The annual fees of Dealer Members shall not be made public by the Corporation.

Section 3.6 Acceptance of Membership for Marketplace Members

If a Marketplace has requested that the Corporation act as the regulation services provider for that Marketplace, the Marketplace shall be accepted as a Marketplace Member effective upon the execution of an agreement with the Marketplace that has been authorized by the Board, for the Corporation to be the regulation services provider to that Marketplace. A Marketplace shall cease to be a Marketplace Member upon the termination of the agreement for the Corporation to be the regulation services provider to the Marketplace.

Section 3.7 Amalgamation of Members

If two or more Members propose to amalgamate and continue as one Member, the continuing Member shall not be considered to be a new Member or be required to re-apply for membership, except as otherwise determined by the Board and provided that the continuing Member otherwise complies with the By-laws and Rules including the payment of Member fees, if applicable.

Section 3.8 Dealer Member Resignation

Subject to Section 14.6, a Dealer Member wishing to resign shall address a letter of resignation to the Board in the form and containing such information prescribed by the Board which resignation shall become effective when approved by the Board, in accordance with the Rules. A Dealer Member resigning from the Corporation shall make full payment of its annual fee, if applicable, for the financial year in which its resignation becomes effective.

Section 3.9 Dealer Member Removal

Unless a Dealer Member has voluntarily resigned, the Board may terminate the membership of such Dealer Member in accordance with the By-laws and Rules. On the termination or resignation of a Dealer Member, the rights of the Dealer Member shall be determined in accordance with the By-laws and the Rules. The Rules regarding the discipline of Members are incorporated by reference in this By-law.

Section 3.10 Transferability, Reorganizations

Membership is not transferable, unless approved by the Board. If the business or ownership of a Member is proposed to be reorganized or transferred, amalgamated or otherwise combined in whole or in part with another person (including another Member) in a manner which the Member or its business will cease to exist in, or will be substantially changed from, its then current form, or a change of control of the Member may occur, the Member (not less than 30 days prior to the proposed effective date of such event) shall give written notice to the Corporation. Upon receipt of such notice, the Corporation shall review the proposed transaction and may request from the Member, its auditors or any other person involved in the transaction, such information as it or the Board may consider necessary or desirable. The Corporation may either (a) approve the proposed transaction (which approval may be subject to terms and conditions) or (b) direct that the transaction not be completed if the Corporation determines in its sole discretion that the obligations of the Member to its clients cannot be satisfied or the By-laws and Rules will not be complied with by the Member or any continuing, new or reorganized entity, as the case may be.

Section 3.11 Ceasing to Carry on Business

If a Member has ceased to carry on business as any of an investment dealer, a mutual fund dealer or a Marketplace, as applicable, or its business has been acquired by a person which is not a Member of the Corporation, the Board may, unless the Member has voluntarily resigned in accordance with Section 3.8, terminate the Membership of the Member after the Member has been given the opportunity to be heard in accordance with the Rules. A former Member whose Membership has been terminated pursuant to the provisions of this Section 3.11

shall cease to be entitled to exercise any of the rights and privileges of Membership but shall remain liable to the Corporation for all amounts due to the Corporation from the former Member.

Section 3.12 Ownership

Without limiting the generality of Section 14.1, the Board may make and from time to time amend and repeal Rules regarding the ownership of equity interests in Members.

ARTICLE 4
MEMBERS' MEETINGS

Section 4.1 Annual Meeting

The annual meeting of the Members shall be held on a date to be determined by the Board, but in any case shall be held within six months after the end of the Corporation's fiscal year. Each annual meeting shall be held at the head office of the Corporation or at any other place in Canada as the Board may determine. At every annual meeting, in addition to any other business that may be transacted, the report of the Directors, the financial statements and the report of the auditors shall be presented and auditors shall be appointed for the ensuing year.

Section 4.2 Special or General Meetings

Members may consider and transact any business either special or general at any meeting of the Members. The Board, the Chair, Vice-Chair, the President, or a designated vice-president shall have power to call, at any time, a general meeting of the Members. The Board shall call a special general meeting of Members on written requisition of Members representing not less than five percent of the number of Members.

Section 4.3 Quorum

Unless otherwise provided by the Act, the Articles or any other By-law, twenty percent of Members shall constitute a quorum at any meeting of the Members provided such Members are present in person or represented by a duly appointed proxyholder. If a quorum is present at the opening of any meeting of Members, the Members present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of any meeting of Members, the Chair or the Members present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

Section 4.4 List of Members Entitled to Notice

For every meeting of Members, the Corporation shall prepare a list, in alphabetic order and arranged by class, of Members entitled to receive notice of and vote at the meeting. The Members listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given. The list shall be available for examination by any Member during usual business hours at the head office of the Corporation and at the meeting for which the list was prepared.

Section 4.5 Notice

Twenty-one days notice shall be given to each Member, each Director, and the auditor of the Corporation, of any annual or special general meeting of Members in the manner prescribed by the Rules and policies. Notice of any meeting where special business will be transacted shall contain sufficient information to permit the Member to form a reasoned judgement on the decision to be taken upon which the Member is entitled to vote. Notice of each meeting of Members must remind the Member entitled to vote that the Member has the right to vote by proxy, and must attach a form of proxy.

Section 4.6 Absentee Voting

(1) In addition to voting personally (or in the case of a Member who is a body corporate or association, by an individual authorized by a resolution of the Board or governing body of the body corporate or association to represent it at meetings of the Members of the Corporation), every Member entitled to vote at a meeting of Members shall have one vote, and may vote by any of the following means:

(a) by a proxy, provided that a person appointed by proxy must be a director, officer or employee of a Member or of an affiliated entity of a Member or a director of the Corporation;

(b) by using a mailed-in ballot in the form provided by the Corporation provided that the Corporation has a system that enables the votes to be gathered in a manner that permits their subsequent verification and permits the tallied votes to be presented to the Corporation without it being possible for the Corporation to identify how each Member voted; or

(c) by means of a telephonic, electronic or other communication facility, if the facility enables the votes to be gathered in a manner that permits their subsequent verification and permits the tallied votes to be presented to the Corporation without it being possible for the Corporation to identify how each Member voted;

provided that a proxy, a mailed-in ballot, or any vote cast by means of a telephonic, electronic or other communication facility must be executed by the Member or the Member's attorney authorized in writing or, if the Member is a body corporate or association, by an officer or employee of a Member or of an affiliated entity of a Member.

(2) The Board may from time to time establish requirements regarding the lodging of proxies at some place or places other than the place at which a meeting or adjourned meeting of Members is to be held and for particulars of such proxies to be sent by facsimile or in writing before the meeting or adjourned meeting to the Corporation or any agent of the Corporation for the purpose of receiving such particulars and providing that proxies so lodged may be voted upon as though the proxies themselves were produced at the meeting or adjourned meeting and votes given in accordance with such requirements shall be valid and shall be counted. The chair of any meeting of Members may, subject to any requirements established as aforesaid, in the chair's discretion accept facsimile or written communication as to the authority of any person claiming to vote on behalf of and to

represent a Member notwithstanding that no proxy conferring such authority has been lodged with the Corporation, and any votes given in accordance with such facsimile or written communication accepted by the chair of the meeting shall be valid and shall be counted.

(3) Voting by proxy, mailed-in ballot, or by means of a telephonic, electronic, or other communication facility shall comply with the procedures for collecting, counting, and reporting the results of any vote established by the Board from time to time. Such procedures are incorporated by reference in this By-law.

Section 4.7 Votes

The voting rights of the Members at any meeting of Members shall be as follows:

(a) In the case of a vote for the election of Directors, each Member present at a meeting to elect such Directors shall have the right to exercise one vote;

(b) In the case of a vote for the removal of a Director, each Member present at a meeting to consider the removal of the Director shall have the right to exercise one vote. A majority of the votes cast by the Members, voting together, present and carrying voting rights to remove a Director shall remove such Director from office;

(c) In the case of a vote for the repeal, amendment or enactment of a By-law or to authorize an application for articles of amendment (including increasing the size of the Board or adding new classes of members) or to approve the sale or transfer of all or substantially all the Corporation's assets, or an amalgamation or plan of arrangement, each Member shall have the right to exercise one vote at a meeting at which such approval is required, and except as required by the Articles or the Act, every such question shall be decided by at least two-thirds of the votes cast on the question by the Members, voting together, present and carrying voting rights;

(d) On all other questions or matters to be decided at a meeting, each Member present at a meeting shall have the right to exercise one vote. A majority of votes cast by all Members, voting together, present and carrying voting rights shall decide the question or matter.

Section 4.8 Participation in Meetings by Telephonic or Electronic Means

(1) A Member may participate in a meeting of the Members by means of a telephonic, electronic or other communication facility that permits all persons participating in the meeting to communicate adequately with each other, if the Corporation makes available such a communication facility. A Member participating in such a meeting by such means is deemed to be present at the meeting.

(2) If the Board or Members call a meeting of Members, the Board or Members, as the case may be, may determine that the meeting shall be held entirely by means of a telephonic, electronic, or other communication facility that permits all participants to communicate adequately with each other during the meeting.

(3) At the outset of each meeting referred to in subsection (1) or (2) and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and unless a majority of the Members present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

Section 4.9 Chair, Secretary and Scrutineers

The chair of any meeting of Members shall be the first mentioned of such of the following officers as have been appointed and who is present at the meeting: Chair, Vice-Chair, or the President. If no such officer is present within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote on behalf of Members shall choose one of their number to be chair. If the secretary of the Corporation is absent, the chair shall appoint an individual who is authorized to vote on behalf of a Member to act as secretary of the meeting. If desired, one or more scrutineers, who need not be Members, may be appointed by a resolution or by the chair with the consent of the meeting.

Section 4.10 Persons Entitled to be Present

The only persons entitled to be present at a meeting of Members shall be those entitled to vote thereat, the Directors and auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act, the Articles or By-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chair of the meeting or with the consent of the meeting.

Section 4.11 Show of Hands

Subject to the provisions of the Act, any question at a meeting of Members shall be decided by a show of hands or by such other form of consent appropriate to the communication facility used to collect votes, unless a ballot thereon is required or demanded in accordance with Section 4.12. Subject to the By-laws, upon a show of hands or the provision of another appropriate form of consent, every person who is present and entitled to vote on behalf of a Member shall have one vote. Whenever a vote by show of hands or otherwise shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chair of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the Members upon the said question.

Section 4.12 Ballots

On any question proposed for consideration at a meeting of Members, and whether or not a show of hands or another form of consent has been taken thereon, the chair or any person who is present and entitled to vote, whether as proxyholder or representative, on such questions at the meeting may demand a ballot. A ballot so required or demanded shall be taken in such manner as the chair shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled to that number of

votes provided by the By-laws and the result of the ballot so taken shall be the decision of the Members upon the said question.

Section 4.13 Adjournment

The chair at a meeting of Members may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the meeting from time to time and place to place. If a meeting of Members is adjourned for less than thirty days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earliest meeting that is adjourned.

ARTICLE 5
BOARD OF DIRECTORS

Section 5.1 Number and Qualifications

Subject to the Articles, the Board shall be comprised of 15 Directors. A majority of the Directors shall be residents of Canada. Directors need not be Members.

Section 5.2 Director Representation

The Board shall be comprised of 15 Directors as follows:

(a) Eight Independent Directors,

(b) Six Non-Independent Directors, and

(c) The President.

Section 5.3 Recommendation of Director Nominees for Election

(1) Prior to each annual meeting of Members at which Directors are to be elected, the Governance Committee shall review and select for recommendation to the Board as nominees such number of qualified candidates for election as Non-Independent Directors and Independent Directors as are to be elected at the annual meeting. The Governance Committee will evaluate individual candidates based on their ability to contribute a range of knowledge, skills and experience and having regard for the required composition of the Board and the fact that the Board, as a whole, should be representative of the Corporation's various stakeholders.

(2) Subject to the terms of the Recognition Orders, the Board shall nominate for election to the Board at the annual meeting the persons as determined in accordance with this Section 5.3.

Section 5.4 Election and Term

(1) The term of each Independent Director and Non-Independent Director elected at a meeting of Members shall expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected.

Notwithstanding the foregoing sentence, the Board of Directors shall be authorized pursuant to Section 5.3(2) to nominate for election by the Members a Director with a term that may expire before the second annual meeting of Members following such election.

(2) With the exception of the President, a Director may be elected to serve four consecutive terms in office but shall not be eligible to be elected to serve a fifth consecutive term, which shall include any shorter term as may have been fixed by the Board of Directors in accordance with this By-law, but shall exclude any portion of a term in office in respect of a vacancy filled pursuant to Section 5.6. For purposes of determining the number of consecutive terms in office of an initial Director upon the Amalgamation who was re-elected at the first annual meeting of Members, his or her term in office prior to the first annual meeting of Members shall not be included. Those Directors elected at the first annual meeting of Members following the Amalgamation to serve for an initial one year term shall be limited to three additional consecutive terms in office.

(3) Notwithstanding Section 5.4(2), a Director who was on the board of directors of either IIROC or the MFDA immediately prior to the Amalgamation shall not be elected to serve on the Board for a term that would result in such Director serving beyond the first annual meeting of Members held after the eight (8) year anniversary of such Director's election to the board of IIROC or the MFDA, as applicable.

Section 5.5 Vacancies

The office of Director shall be automatically vacated:

(a) If a resolution to remove the Director has been approved by the Members in accordance with Section 4.7(b);

(b) In the case of a Director who is President, if the Director ceases to be President;

(c) In the case of an Independent Director, if the Director ceases to be qualified as an Independent Director;

(d) If a Director shall have resigned the office by delivering a written resignation to the secretary of the Corporation;

(e) If the Director is declared to be incapable by a court in Canada or in any other country;

(f) If a majority of the Directors (excluding the Director in question) determine that the Director is no longer a fit and proper person;

(g) If the Director becomes bankrupt; or

(h) If the Director dies.

Section 5.6 Filling Vacancies

If a vacancy in the Board shall occur for any reason, the vacancy shall be filled (allowing a reasonable period of time for doing so) for the balance of the term or such shorter term as the Board shall determine pursuant to Section 5.4, of the Director that vacated the office by a resolution passed by the Board appointing a Director, provided that:

(a) If the vacancy is caused by the departure of the President, the person to be appointed to the office of the President has been appointed by the Board;

(b) If the vacancy is caused by the departure of an Independent Director or a Non-Independent Director, the person to be appointed has been identified and recommended by the Governance Committee and in the case of a vacancy of an Independent Director, the person recommended is qualified as an Independent Director, and

(c) If the vacancy is caused by the failure to elect the required number of Directors, the Board may appoint a Director to fill the vacancy on the basis that the vacancy arose by reason of the departure of an Independent Director or Non-Independent Director and the provisions of Section 5.6(b) shall apply.

Section 5.7 Remuneration of Directors

The Board may determine from time to time such reasonable remuneration, if any, to be paid to the Independent Directors for serving as such and the Board may determine that such remuneration need not be the same for all Directors. Non-Independent Directors shall not receive remuneration for serving as such. Directors may be reimbursed for reasonable expenses incurred by a Director in the performance of the Director's duties.

Section 5.8 Release of Claims

When a Director ceases to hold office, the Corporation shall release a resigning or departing Director of all claims with respect to any matter or thing up to and including the resignation or departure in the capacity as a Director, except for any claims (other than to the extent the Director is indemnified by the Corporation pursuant to Section 9.2) which might arise out of the gross negligence or fraud of the resigning or departing Director.

ARTICLE 6
POWERS OF DIRECTORS

Section 6.1 Administer Affairs

The Board shall supervise the management of the affairs of the Corporation. Subject to the By-laws and the Act, the powers of the Board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Board. If there is a vacancy on the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office.

Section 6.2 Expenditures

The Board shall have power to authorize expenditures on behalf of the Corporation from time to time and may delegate by resolution to an officer or officers of the Corporation the right to employ and pay salaries to employees.

Section 6.3 Borrowing Power

(1) The Board is hereby authorized, from time to time, without the authorization of the Members:

(a) To borrow money upon the credit of the Corporation;

(b) To limit or increase the amount to be borrowed;

(c) To issue or cause to be issued, bonds, debentures or other securities of the Corporation and to pledge or sell the same for such sums, upon such terms, covenants and conditions and at such prices as may be deemed expedient by the Board;

(d) To secure any such bond, debentures or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable and immovable, property of the Corporation, and the undertaking and rights of the Corporation; and

(e) Delegate to a committee of the Board, a Director or an officer or officers of the Corporation all or any of the powers conferred on the Board under this subsection to such extent and in such manner as the Board may determine at the time of such delegation.

(2) The powers hereby conferred shall be deemed to be in supplement of and not in substitution for any powers to borrow money for the purposes of the Corporation possessed by its Directors or officers independently of this By-law.

Section 6.4 Conflict of Interest

(1) A Director who is in any way directly or indirectly interested in a material contract or proposed material contract or a material transaction or proposed material transaction with the Corporation shall make the disclosure required by the Act and except as provided by the Act, no such Director shall vote on any resolution to approve any such contract or transaction. In supplement of and not by way of limitation upon any rights conferred upon Directors by the Act, it is declared that, subject to compliance with the Act, no Director shall be disqualified from any such office by, or vacate any such office by reason of, holding any office with the Corporation or with any corporation in which the Corporation shall be a shareholder or by reason of being otherwise in any way directly or indirectly interested or contracting with the Corporation as vendor, purchaser or otherwise or being concerned in any contract or arrangement made or proposed to be entered into with the

Corporation in which the Director is in any way directly or indirectly interested as vendor, purchaser or otherwise. Subject to compliance with the Act, no contract or arrangement or transaction entered into by or on behalf of the Corporation in which any Director shall be in any way directly or indirectly interested shall be void or voidable and no Director shall be liable to account to the Corporation or any of its Members or creditors for any profit realized by or from any such contract or arrangement or transaction by reason of any fiduciary relationship. Notwithstanding the foregoing prohibitions on voting by a Director, such Director may be present at and counted to determine the presence of a quorum at the relevant meeting of Directors.

(2) A Director who is a party to, or who is a director, officer or employee of or has a material interest in any person who is a party to, a regulatory matter or regulatory investigation in which the Corporation is involved shall disclose the nature and extent of his or her interest at the time and in the manner required by subsection 6.4(1) for an interest in a contract or transaction. Such Director shall not vote on any such matter or investigation, and shall withdraw from the part of any meeting of the Board at which the matter or investigation is discussed or considered, if such matter or investigation is directed specifically at or otherwise directly relates to the Director or a person of which he or she is an employee, officer or director or in which he or she has a material interest.

ARTICLE 7
DIRECTORS' MEETINGS

Section 7.1 Place of Meeting

Meetings of the Board may be held at any place to be determined by the Board, inside of Canada.

Section 7.2 Calling of Meetings

Meetings of the Board shall be held from time to time at such time as the Board, the Chair, the President, or any two Directors may determine.

Section 7.3 Notice of Meetings

Forty-eight hours written notice of any meeting of the Board shall be given, other than by mail, to each Director. Notice by mail shall be sent at least fourteen days prior to the meeting. There shall be at least one meeting per calendar quarter of the Board. Any notice shall describe the matters to be addressed at the meeting. A meeting of the Board shall be held immediately following an annual meeting without notice, provided a quorum is present.

Section 7.4 Adjourned Meeting

Any meeting of directors may be adjourned from time to time by the chair of the meeting, with the consent of the meeting, to a fixed time and place. Notice of any adjourned meeting of directors is not required to be given if the time and place of the adjourned meeting is announced at the original meeting. Any adjourned meeting shall be duly constituted if held in accordance with the terms of the adjournment and a quorum is present thereat. The directors who formed a quorum at the

original meeting are not required to form the quorum at the adjourned meeting. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have terminated forthwith after its adjournment. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

Section 7.5 Regular Meetings

The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each Director forthwith after being passed, but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified and except where non-routine business is to be discussed.

Section 7.6 Chair of Meetings of the Board

The chair of any meeting of the Board shall be the Chair, and if the Chair is not present at the meeting, the Vice-Chair. If the Chair and the Vice-Chair are not present, the Directors present shall choose one of their number to be chair.

Section 7.7 Voting Rights

Each Director is authorized to exercise one vote at all meetings of the Board, and except as required by the Act, every question shall be decided by a majority of the votes cast on the question and, in case of an equality of votes, the chair of the meeting shall not be entitled to a second or casting vote.

Section 7.8 Participation in Meetings by Telephonic or Electronic Means

(1) A Director may participate in a meeting of the Board or of a committee of the Board by means of a telephonic, electronic, or other communication facility that permits all persons participating in the meeting to communicate adequately with each other, provided that each Director has consented in advance to meeting by such means, and a Director participating in such a meeting by such means is deemed to be present at the meeting.

(2) At the outset of each meeting referred to in the foregoing subsection and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and, unless a majority of the Directors present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

Section 7.9 Quorum

A majority of the Directors in office, including a majority of the Independent Directors in office from time to time, shall constitute a quorum for meetings of the Board. Any meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under the By-laws.

Section 7.10 Minutes of Meetings

The minutes of the Board shall not be available to the Members but shall be available to the Directors, each of whom shall receive a copy of such minutes.

ARTICLE 8
OFFICERS

Section 8.1 Appointment

The Board may annually or more often as may be required, appoint a Chair, a Vice-Chair, a President, one or more vice-presidents, a secretary and any such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. The Board may specify the duties of and, in accordance with this By-law and subject to the provisions of the Act, delegate to such officers powers to manage the affairs of the Corporation. Except as otherwise provided in this By-law, officers need not be Directors, nor Members.

Section 8.2 Chair and Vice-Chair of the Board

The Board shall from time to time appoint a Chair of the Board who shall be an Independent Director and may appoint one or more Vice-Chairs of the Board who shall be Directors and may not be President. If appointed, the Board may assign to them any of the powers and duties that are by any provisions of a By-law assigned to the President, and they shall, subject to the provisions of the Act, have such other powers and duties as the Board may specify. During the absence or disability of the Chair, the Vice-Chair shall perform the duties and exercise the powers of Chair.

Section 8.3 President and Chief Executive Officer

The Board shall appoint a President, who shall also be appointed as the chief executive officer. The President shall have such powers and duties as the Board may specify.

Section 8.4 Vice-President

A vice-president shall have such powers and duties as the Board or the President may specify.

Section 8.5 Secretary

The secretary shall attend and be the secretary of all meetings of the Board (or arrange for another individual to so act), Members and committees of the Board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat; the secretary shall give or cause to be given, as and when instructed, all notices to Members, Directors, officers, auditors and members of committees of the Board; the secretary shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents, and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose; and the secretary shall have such other powers and duties as the Board or the President may specify.

Section 8.6 Powers and Duties of Other Officers

The powers and duties of all other officers shall be such as the terms of their engagement call for or as the Board or the President may specify. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board or the President otherwise directs.

Section 8.7 Variation of Powers and Duties

The Board may from time to time and subject to the provisions of the Act, vary, add to or limit the powers and duties of any officer.

Section 8.8 Term of Office

The Board, in its discretion, may remove any officer of the Corporation, without prejudice to such officer's rights under any employment contract. Otherwise, each officer appointed by the Board shall hold office until his or her successor is appointed, or until his or her earlier resignation.

Section 8.9 Terms of Employment and Remuneration

The terms of employment and the remuneration of an officer appointed by the Board shall be settled by the Board from time to time or by a committee of the Board appointed for that purpose.

Section 8.10 Conflict of Interest

Section 6.4 of this By-Law shall apply to an officer (i) with any interest in any material contract or proposed material contract or material transaction or proposed material transaction with the Corporation, or (ii) who is a party to, or who is a director, officer or employee of or has a material interest in any person who is a party to a regulatory matter or regulatory investigation in which the Corporation is involved, as if the officer were a Director.

Section 8.11 Agents and Attorneys

The Corporation, by or under the authority of the Board, shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management, administration or otherwise (including the power to sub-delegate) as may be thought fit, subject to the provisions of the Act.

ARTICLE 9
PROTECTION OF DIRECTORS AND OTHERS

Section 9.1 Limitation of Liability

No Protected Party shall be liable for the acts, neglect or defaults of any other Protected Party, or for any other loss, damage or misfortune whatsoever which shall happen in the execution of the duties of his or her office or position or in relation thereto unless the same are occasioned by his or her own wilful neglect or default.

Section 9.2 Indemnities to Directors and Others

(1) Each Indemnified Party shall, from time to time and at all times, be indemnified and saved harmless out of the funds of the Corporation, from and against:

(a) all costs, charges, fines, damages and penalties and expenses whatsoever that such Indemnified Party reasonably incurs, including an amount paid to settle an action or satisfy a judgment, in respect of any civil, criminal, administrative, investigative, or other proceeding which is threatened, brought, commenced or prosecuted against him or her, or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him or her, in or about the execution of the duties of his or her office or position or in respect of any such liability including those duties executed, whether in an official capacity or not, for or on behalf of or in relation to any body corporate or entity which he or she serves or served at the request of or on behalf of the Corporation or other entity; and

(b) all other costs, charges and expenses which he or she sustains or incurs in or about or in relation to the affairs thereof, including an amount representing the value of time any such Indemnified Party spent in relation thereto and any income or other taxes or assessments incurred in respect of the indemnification provided for in this By-law, until it is conclusively determined that such Indemnified Party shall no longer be entitled to such indemnification,

provided that the Indemnified Party:

(c) acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the Indemnified Party acted as director or officer or in a similar capacity at the Corporation's request; and

(d) in the case of a criminal or administrative proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his/her conduct was lawful.

(2) The Corporation shall also indemnify such persons in such other circumstances as the Act permits or requires. Nothing in this By-law shall limit the right of any person entitled to indemnity apart from the provisions of this By-law.

Section 9.3 Insurance

The Corporation shall purchase and maintain insurance for the benefit of any Indemnified Party against such liabilities and in such amounts as the Board may from time to time determine and are permitted by the Act.

ARTICLE 10
REGIONAL COUNCILS

Section 10.1 Designation of Regions

Subject to the terms of the Recognition Orders, the Board may establish a National Council, and the Board may designate any geographic area in Canada as a Region of the Corporation. Subject to the terms of the Recognition Orders, the Board may change or terminate any such designation. The original geographic areas of Canada have been designated as Regions of the Corporation as follows:

(a) Atlantic Region, composed of the Provinces of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador;

(b) Quebec Region;

(c) Ontario Region;

(d) Manitoba Region, composed of the Province of Manitoba and the Territory of Nunavut;

(e) Saskatchewan Region;

(f) Alberta Region, composed of the Province of Alberta and the Northwest Territories; and

(g) Pacific Region, composed of the Province of British Columbia and the Yukon Territory.

Section 10.2 Composition of Regional Councils

(1) There shall be a Regional Council in each Region. Each Regional Council shall be composed of four to twenty members, as determined from time to time by the Regional Council, including a chair and vice-chair to be elected at the annual meeting of Dealer Members of the Region.

(2) In addition to the members of the Regional Council elected at the annual meeting of Dealer Members of the Region, the Board may appoint one or more ex-officio members of a Regional Council.

Section 10.3 Duties and Powers

Each Regional Council shall have an advisory role with respect to regional issues, and provide regional perspectives on national issues.

Section 10.4 Meetings of Regional Members

The Dealer Members of each Region shall meet at least annually for the purpose of electing members of the Regional Council. A meeting of the Dealer Members of any Region may be called

by the Regional Council or by the Board and shall be held and conducted in accordance with the By-laws and Rules, and the procedures established by the Board from time to time. Notice of the time and place of any such meeting shall be given to the Dealer Members of the Region. Two Members of the Region entitled to vote, present personally or by a partner, director or officer shall be a quorum for any meeting of the Dealer Members of the Region. Unless otherwise determined by the Board, voting at any meeting of the Dealer Members of a Region may be carried out in the same manner as provided for voting at meetings of the Corporation. Instruments of proxy for such purpose shall be lodged with the Chair of the Regional Council not later than 10:00 a.m. of the day of the meeting or of any adjournment thereof.

ARTICLE 11
DISTRICT HEARING COMMITTEES

Section 11.1 Designation of Districts

Subject to the terms of the Recognition Orders, the Board may from time to time designate any geographic area in Canada as a District of the Corporation, and may change or terminate any such designation. The original geographic areas of Canada have been designated as Districts of the Corporation as follows:

(a) Newfoundland and Labrador District;

(b) Prince Edward Island District;

(c) Nova Scotia District;

(d) New Brunswick District;

(e) Québec District;

(f) Ontario District;

(g) Manitoba District, composed of the Province of Manitoba and the Territory of Nunavut;

(h) Saskatchewan District;

(i) Alberta District, composed of the Province of Alberta and the Northwest Territories; and

(j) Pacific District, composed of the Province of British Columbia and the Yukon Territory.

Section 11.2 District Hearing Committees

There shall be a hearing committee in each District. Each District Hearing Committee shall have the duties, shall operate in accordance with the procedures and shall exercise its powers as

set out in the Rules, including its powers with respect to the conduct of hearings. The appointment of the District Hearing Committees shall be made in accordance with the Rules.

ARTICLE 12
COMMITTEES AND ADVISORY BODIES

Section 12.1 Committees of the Board

The Board may from time to time in its discretion appoint from their number one or more committees of the Board with such powers as the Board may determine including, without limitation, the authority to exercise any of the powers of the Board and to act in all matters for and in the name of the Board under the By-laws and Rules, except in each case where By-laws or Rules specifically require an action by, or approval of, the Board. The members of any committee established by the Board shall be appointed annually at the first meeting of Directors following the annual meeting of Members at which Directors have been elected. Unless otherwise provided in this By-law, any Director shall be entitled to be appointed to any committee and a majority of the members of a committee present in person or by telephone shall constitute a quorum, provided that if Independent Directors must be members of the committee, the quorum must also include a majority of the Independent Directors who are members of the committee.

Section 12.2 Governance Committee

The Board shall establish a Governance Committee composed of at least five Directors, and may include the Chair. All of the members shall be Independent Directors. The chair of the Governance Committee shall be elected by the Board. The Governance Committee shall perform such duties as the Board may delegate or direct from time to time.

Section 12.3 Finance, Audit and Risk Committee

The Board shall establish a Finance, Audit and Risk Committee composed of at least five Directors of whom a majority shall be Independent Directors. The chair of the Finance, Audit and Risk Committee shall be an Independent Director elected by the Board. The Finance, Audit and Risk Committee shall review and report to the Board on the annual financial statements of the Corporation and shall perform such other duties as the Board may delegate or direct from time to time.

Section 12.4 Human Resources and Pension Committee

The Board shall establish a Human Resources and Pension Committee composed of at least five Directors of whom a majority shall be Independent Directors. The chair of the Human Resources and Pension Committee shall be an Independent Director elected by the Board. The Human Resources and Pension Committee shall perform such duties as the Board may delegate or direct from time to time.

Section 12.5 Appointments Committee

The Board shall establish an Appointments Committee which will be responsible for appointing members to the District Hearing Committees and such Appointments Committee shall

be composed of at least seven Directors (provided the Appointments Committee shall always be comprised of an uneven number of members), including the President, of whom a majority shall be Independent Directors. The chair of the Appointments Committee shall be an Independent Director elected by the Board. The Appointments Committee shall perform such other duties as the Board may delegate or direct from time to time.

Section 12.6 Committee Meetings

The Board may prescribe requirements and procedures not inconsistent with the Act and the By-laws relating to the calling of meetings of, and conduct or business by, committees of the Board. Subject to the By-laws and Rules and any resolution of the Board, meetings of any such committee shall be held at any time and place to be determined by the chair of the committee or its members provided that at least 48 hours' prior written notice of such meetings shall be given, other than by mail, to each member of the committee. Notice by mail shall be sent at least 14 days prior to the meeting.

Section 12.7 Advisory Bodies

The Board may from time to time appoint such advisory bodies as it may deem advisable, and may delegate such power of appointment to any Director, officer, committee or employee of the Corporation. Membership on such advisory bodies shall be determined by the Board from time to time and if the Board so decides, members of such advisory bodies may be persons other than Directors, Members or directors, officers or employees of a Member.

Section 12.8 Procedure

Unless otherwise determined by the Board, this By-law or the Rules, each committee and advisory body shall have power to regulate its procedure.

ARTICLE 13
NOTICES

Section 13.1 Method of Giving Notices

Any notice (which term includes any communication or document) to be given (which term includes sent, delivered, or served) pursuant to the Act, the regulations thereunder, the Articles, the By-laws or otherwise to a Member, Director, officer, auditor or member of a committee of the Board shall be sufficiently given if delivered personally to the person to whom it is to be given; or if delivered to the person's recorded address; or if mailed to the person at the person's recorded address by prepaid ordinary or air mail; or if sent to the person at the person's recorded address by any means of prepaid transmitted or recorded communication (including any form of electronic communication). A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid; a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box and deemed to have been received on the fifth day after mailing; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch. The secretary may change or cause to be changed the recorded address of any Member, Director, officer, auditor

or member of a committee of the Board in accordance with any information believed by the secretary to be reliable. The foregoing shall not be construed so as to limit the manner or effect of giving notice by any other means of communication otherwise permitted by law or as authorized by this By-law.

Section 13.2 Undelivered Notices

If any notice given to a Member pursuant to Section 13.1 is returned on three consecutive occasions because the Member cannot be found, the Corporation shall not be required to give any further notices to such Member until the Member informs the Corporation in writing of the Member's new address.

Section 13.3 Omissions and Errors

The accidental omission to give any notice to any Member, Director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

Section 13.4 Waiver of Notice

Any Member, proxyholder, representative, other person entitled to attend a Members' Meeting, Director, officer, auditor or member of a committee of the Board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to such person under any provision of the Act, the regulations thereunder, the Articles, the Bylaws or otherwise and such waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of the Board or of a committee of the Board which may be given in any manner.

ARTICLE 14
RULES AND OTHER INSTRUMENTS

Section 14.1 Power to Make, Amend or Repeal Rules

The Board may make and from time to time amend or repeal such Rules, policies and other instruments (collectively, "Rules") for the objects of the Corporation as a self-regulatory organization and a regulation services provider. All such Rules for the time being in force, unless expressly otherwise provided, shall be binding upon all Regulated Persons. For the purposes of the discipline of Members in accordance with the Rules, such Rules from time to time are incorporated by reference in this By-law. Rules made or amended may be designated with such style, name or title as approved by the Board. Rules shall be effective without Member approval or approval by any other person, except as expressly otherwise provided therein or pursuant to any applicable legislation, the Recognition Orders or the Information Processor Recognition Orders. Rules may represent the imposition of requirements in addition to or higher than those imposed under the applicable securities legislation.

Section 14.2 Forms and Other Instruments

Where pursuant to any By-Law or Rule, a Form or other instrument may be prescribed or adopted, any such Form or other instrument (including any instructions, directions or notes in such Forms) so prescribed or adopted shall have the same force and effect as the By-Law or Rule pursuant to which it is prescribed or adopted. Any reference in the By-laws or Rules to compliance with the By-laws or Rules shall be deemed to include a reference to any Forms and other instruments.

Section 14.3 Use of Restricted Fund

Permissible uses for the Restricted Fund will be subject to the terms of Recognition Orders.

Section 14.4 Investor Protection Fund

The Corporation is authorized to enter into and perform its obligations under such agreements or other arrangements with the IPF as may be, in the discretion of the Board, consistent with the objects of the Corporation including, without limitation, the Industry Agreement. The President, his or her staff or any other person designated by the Board shall be authorized to execute and deliver any such agreements, or make any such arrangements, and to do all acts and things as may be necessary to permit the Corporation to exercise its rights or perform its obligations thereunder.

In respect of the Industry Agreement or other agreements and arrangements entered into by the Corporation from time to time, each Dealer Member:

(a) shall promptly pay to the IPF all regular and special assessments levied or prescribed by the IPF in respect of such Dealer Member;

(b) shall provide to the IPF such information as is contemplated to be provided by a Dealer Member in connection with the assessment of the financial condition of Dealer Members or risk of loss to the IPF;

(c) acknowledges and consents to the exchange between the Corporation and the IPF of information relating to Dealer Members, their partners, directors, officers, shareholders, employees and agents, customers or any other persons permitted by law in accordance with any information sharing agreements or arrangements made by them;

(d) shall permit the IPF to conduct reviews of such Dealer Member or designated groups of Dealer Members as contemplated by the Industry Agreement or other arrangements and to fully cooperate with the IPF, and its staff and advisers, in connection with such reviews; and

(e) shall comply with such actions as the IPF may direct the Corporation to take with respect to a Dealer Member, or with such actions as the IPF may take on behalf of the Corporation as authorized.

Section 14.5 Notices, Guidelines, Etc.

The Corporation may develop and issue to Regulated Persons such guidelines, notices, interpretations, procedures, practices and other communications relevant to the By-laws and Rules or the business and activities of a Regulated Person or any other person subject to the jurisdiction of the Corporation to supplement or assist in the interpretation, application of and compliance with the By-laws and Rules.

Section 14.6 Continuing Jurisdiction and Discipline and Enforcement under the Rules

(1) Any Regulated Person, in accordance with the provision of any Rule, shall remain subject to the jurisdiction of the Corporation in respect of any action or matter that occurred while that person was subject to the By-laws and Rules, including any predecessor by-laws or rules of IIROC or the MFDA in effect at the time of such action or matter, for such period of time and under such additional conditions as may be provided in the Rules.

(2) The Rules shall provide the practice and procedure to be followed by the Corporation in connection with the commencement and conduct of a disciplinary hearing and shall establish the penalties or remedies that may be imposed by the Corporation on a Regulated Person for failure to comply with any Rules.

Section 14.7 Exchange of Information, Agreements

(1) The Corporation may provide assistance, including the collection and sharing of information (including information obtained by the Corporation pursuant to the By-Laws or Rules or otherwise in its possession) and other forms of assistance for the purpose of market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose to any exchange, self-regulatory organization, securities regulator, financial intelligence or law enforcement agency or authority, or investor protection or compensation fund, whether domestic or foreign.

(2) The Corporation may enter into an agreement with any entity described in Section 14.7(1) to collect and exchange information (including information obtained by the Corporation pursuant to the By-Laws or Rules or otherwise in its possession) and to provide for any other forms of mutual assistance for the purpose of market surveillance, investigation, enforcement litigation, investor protection and compensation and for any other regulatory purpose.

ARTICLE 15
NO ACTIONS

Section 15.1 No Actions Against the Corporation

No Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a Member who has been expelled from the Corporation or whose membership has been forfeited) shall be entitled, subject to the rights of appeal granted under the By-laws, Rules or applicable securities legislation, and further subject to any specific contractual rights that a Regulated Person may have in respect of a contract or other agreement to which the

Corporation is a party, to commence or carry on any action or other proceedings against the Corporation or against the Board, or any Indemnified Party, against the IPF, its Board, any of its committees or its officers, employees and agents, in respect of any penalty imposed or any act or omission done or omitted under the provisions of and in compliance with or intended compliance with the provisions of the Articles, By-laws or Rules and, in the case of the IPF, done or omitted under the provisions of and in compliance with or intended compliance with the provisions of its letters patent or articles, by-laws and policies, and in any case under any legislation or regulatory directives or agreements thereunder.

Section 15.2 No Liabilities Arising in Respect of Entities in which Corporation Holds an Interest

The Corporation shall not be liable to a Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a member who has been expelled from the Corporation or whose membership has been forfeited) for any loss, damage, costs, expense, or other liability arising from any act or omission of any corporation or other entity in which the Corporation holds an equity or participating interest, including without limitation FundSERV Inc.

ARTICLE 16
USE OF NAME OR LOGO: LIABILITIES: CLAIMS

Section 16.1 Use of Name

No Member shall use the name or logo of the Corporation or its predecessors, including IIROC or the MFDA, on letterheads or in any circulars or other advertising or publicity matter, except to the extent and in such form as may be authorized by the Board. The Board may at its sole discretion require a Member to cease using the name or logo of the Corporation. Any use by a Member of the name or logo of the Corporation shall not have the effect of granting to the Member any proprietary interest in the Corporation's name or logo.

Section 16.2 Liabilities

No liability shall be incurred in the name of the Corporation by any Member, officer or committee without the authority of the Board.

Section 16.3 Claims

Whenever the membership of a Member ceases for any reason whatsoever, neither the former Member nor its heirs, executors, administrators, successors, assigns or other legal representatives, shall have any interest in or claim on or against the funds and property of the Corporation.

ARTICLE 17
TRANSITION PERIODS FOR BY-LAWS AND RULES

Section 17.1 Transition Periods for By-laws and Rules

The Board may suspend or modify the application of any By-law or Rule, or provision thereof, for such period of time as it may determine in its sole discretion in order to facilitate the orderly application of and compliance with such By-law or Rule to or by all or any number or class of Regulated Persons. Any suspension or modification may be made either before or after the relevant By-law or Rule has become effective, and notice of the suspension or modification shall be given promptly to all Regulated Persons and to the securities regulatory authority in any jurisdiction where such By-law or Rule would otherwise be in effect. No suspension or modification shall unreasonably discriminate between Members or other persons subject to the jurisdiction of the Corporation and no such modification shall impose on all or any of the Members or other persons subject to the jurisdiction of the Corporation a requirement that is more onerous or strict than the requirements of the By-law or Rule that is subject to the modification.

ARTICLE 18
AMENDMENT, REPEAL, ENACTMENT OF BY-LAWS

Section 18.1 By-laws

(1) The Board may, by resolution, make, amend, or repeal any By-laws that regulate the activities or affairs of the Corporation and shall submit the By-law, amendment, or repeal to the Members at the next meeting of Members. The Members may, by resolution in accordance with Section 4.7(c), confirm, reject, or amend the By-law, amendment, or repeal. The By-law, amendment, or repeal shall only be effective from the date on which the Members confirm, reject, or amend the By-law, amendment, or repeal.

(2) The right of Members to vote to confirm, reject or amend a By-law, or exercise other rights granted to Members under the Act, is subject to the authority, pursuant to applicable securities laws and the Recognition Orders, of the securities commissions and securities regulatory authorities to make any decisions relating to the By-laws of Corporation. In the event of an inconsistency between the By-laws and any direction provided by a securities commission or securities regulatory authority to the Corporation, the direction provided by the securities commission or securities regulatory authority will govern.

(3) The By-law shall become effective at the effective time of the Amalgamation and at such time the By-laws of the predecessors of the Corporation shall be repealed. Such repeal shall not affect the previous operation of any By-law or affect the validity of any act done or right or privilege, obligation, or liability acquired or incurred under, or the validity of any contract or agreement made pursuant to any such By-law prior to its repeal. All directors, officers, and person acting under any By-law so repealed shall continue to act as if appointed under the provisions of this By-law and all resolutions of the Members and of the Board with continuing effect passed under any repealed By-law shall continue as good and valid except to the extent inconsistent with this By-law and until amended or repealed.

ARTICLE 19
PUBLIC ACCOUNTANT

Section 19.1 Public Accountant

The Members shall, at each annual meeting, appoint a public accountant to audit the accounts of the Corporation for report to the Members at the next annual meeting. The public accountant shall hold office until the next annual meeting provided that the Directors may fill any casual vacancy in the office of the public accountant. The Corporation's public accountant may not be a Director, officer or employee of the Corporation or of an affiliated Corporation or associated with that Director, officer or employee. The remuneration of the public accountant shall be fixed by the Board.

ARTICLE 20
BOOKS AND RECORDS

Section 20.1 Books and Records

The Board shall see that all necessary books and records of the Corporation required by the By-laws of the Corporation or by any applicable statute or law are regularly and properly kept, including maintaining the confidentiality of such books and records when applicable.

Schedule 2 – Draft Interim Rules of the New SRO

1. **Investment Dealer and Partially Consolidated Rules**

To ensure timely rulemaking and minimal disruption to investment dealers and their employees and Approved Persons, only the following substantive changes are being introduced within the proposed New SRO interim rules for investment dealers:

- Elimination of remaining District Council regulatory approval authorities
- Permitting mutual fund dealers to introduce business to investment dealers, enabling greater mutual fund dealer client access to exchange traded funds
- Revision of the upgrade rule requirements for mutual funds only Registered Representatives and Investment Representatives

A number of changes have been made to transition and jurisdiction-related rule provisions. Below is list of the most significant of these changes:

- The title of the rule set has been changed from "IIROC Rules" to "Corporation Investment Dealer and Partially Consolidated Rules" to clarify that these interim rules:
  - in most areas only apply to investment dealers and, where applicable, their employees and Approved Persons
  - in certain areas[1]:
    - apply to both investment dealer and marketplace Regulated Persons, including investment dealers and their employees and Approved Persons
    - represent partially consolidated rules of the New SRO in that apply to both investment dealer and marketplace Regulated Persons, including persons subject to the Universal Market Integrity Rules (UMIR), **but do not apply** to mutual fund dealer Regulated Persons, including their employees and Approved Persons
- The transitional provisions within section 1105 have been revised to reference what will be on Day 1 of the New SRO, the former rules of IIROC
- The defined terms set out in subsection 1201(1) that are to be used throughout the interim rules have been revised to:
  - reflect the elimination of the remaining District Council regulatory approval authorities[2,3],

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[1] Such as the general standards of conduct set out in Rule 1400 and the investigation and enforcement set out in Rules 8100 through 8400).

[2] Refer to the proposed elimination of the definition for "applicable District Council".

[3] As part of the elimination of the remaining District Council regulatory approval authorities throughout the rules, we have replaced each District Council approval with a requirement for "the Corporation" to approve. Specifically, we have not proposed for any of the former District Council approvals whether the decision would be made going forward by the Board, a Board Committee, a hearing panel or Corporation staff. We believe it is a better approach to refer within the rules to "the Corporation" deciding and to allow the Corporation Board to determine which individual or body of the Corporation makes the decision rather than hard coding within the rules which individual or body makes each decision.

- reflect the replacement of District Councils with Regional Councils[4],
- enable a mutual fund dealer to introduce to an investment dealer[5], and
- ensure that the scope of persons subject to the rules remains the same as with the current IIROC rules[6].

- Revisions have been made to Rules 2100 and 2200 to reflect the elimination of the remaining District Council approval authorities with respect to firm ownership and organization matters
- Revisions have been made to Rule 2400 to permit a mutual fund dealer to introduce to an investment dealer
- New section 2430 has been added to help clarify that:
  - a mutual fund dealer can introduce part or all of its business to an investment dealer
  - where a mutual fund dealer introduces a significant portion of their business to an investment dealer, they must comply with the Corporation's Investment Dealer and Partially Consolidated Rules
  - where a mutual fund dealer introduces an insignificant portion of their business to an investment dealer, they must comply with the Corporation's Mutual Fund Dealer Rules
- Revisions have been made to Rules 2500 through 2700 to:
  - reflect the elimination of the District Council approval authorities with respect to individual registration and proficiency matters
  - revise the upgrade rule requirements for mutual funds only Registered Representatives and Investment Representatives

  As part of the revisions to the upgrade rule requirement, we are proposing to:

  - revise subsection 2553(3) to reference the 2 existing temporary approval categories and the 1 new permanent approval category for mutual funds only licensed individuals
  - introduce subsection 2553(6) to clarify that the upgrade rule only applies to mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer.
  - revise the first table in subsection 2602(3) to clarify that the:
    - 2 temporary approval categories are for mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer
    - 1 new permanent approval category is for mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer
  - revise the second table in subsection 2602(3) to clarify that the:

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[4] Refer to the proposed elimination of the "District Council" definition and the proposed introduction of the "Region" and "Regional Council" definitions.

[5] Refer to the proposed revised definitions for "introducing broker" and "carrying broker".

[6] Refer to the proposed revised definitions for "Dealer Member" and "Regulated Persons".

        - 2 temporary approval categories in clauses 2602(3)(vi) and 2602(3)(xiii) and are for mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer
        - 1 new permanent approval category in clause 2602(3)(vii) is for mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer [**Note:** Individuals in this category would be required to complete the Conduct and Practices Handbook Course]
    - introduce in subsection 2603(1) incremental proficiency requirements for mutual funds only licensed individuals wishing to trade in exchange-traded funds
    - introduce in subsection 2603(2) incremental proficiency requirements for mutual funds only licensed individuals wishing to trade in exempt market products
    - introduce in subsection 2625(2) a specific exemption available for individuals seeking approval as a Supervisor in relation to activities of mutual funds only licensed individuals
    - introduce in subsection 2631(1) transitional provisions for mutual funds only licensed individuals
    - introduce subsection 2704(2) to clarify that mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer are not subject to the investment dealer continuing education requirements and are subject to the mutual fund dealer continuing education requirements
- Revisions have been made to the continuing jurisdiction provisions in Rules 8100 and 8200
- Revisions have been made to process set out in Rule 8300 for appointing members of the hearing committee within each district to remove the current District Council authority to nominate certain individuals for appointment
- Revisions have been made to Rules 9100 through 9400 to reflect the elimination of District Council involvement in regulatory decisions involving individuals and firms, including the elimination of involvement in related opportunity to be heard and decision review processes
- Rule 9700 relating to the Canadian Investor Protection Fund has been eliminated as an equivalent set of rule provisions relating the new investor protection fund have been added to the proposed general by-law for New SRO.

2. Mutual Fund Dealer Rules

To ensure continuity of regulatory oversight, the Mutual Fund Dealer Rules will contain the pre-amalgamation requirements set out under current MFDA Rules, certain provisions of the MFDA By-law, MFDA Policies and the MFDA Form 1. Certain revisions to reflect the new structure of the Interim Rules have been made as set out below.

In addition, the Mutual Fund Dealer Rules include the following new proposals:

- Proposed amendments to *MFDA Rule 1.1.6 (Introducing/Carrying Arrangement)* to permit introducing / carrying broker arrangements between mutual fund dealers and investment dealers.

- Where the business being carried by the investment dealer is limited to exchange-traded funds, or platform-traded funds, and does not represent a significant portion of the mutual fund dealer's overall business, the mutual fund dealer shall comply with requirements established by the Corporation that are applicable to mutual fund dealers.
- Where a significant portion of the mutual fund dealer's business or business other than trading in exchange traded funds or platform-traded funds is being carried by the investment dealer, the mutual fund dealer shall comply with requirements established by the Corporation that are applicable to investment dealers.

- New *Rule 7.1 (Hearing Committees)* sets out provisions for the establishment and composition of District Hearing Committees and the nomination and appointment process for hearing committee members. The District Hearing Committees will replace the current MFDA Regional Councils and be responsible for the conduct of hearings by hearing panels.

The following is a summary of the new structure of the Mutual Fund Dealer Rules.

New Rule 1A – Application, Interpretation, Exemptions and Definitions

New Rule 1A sets out the application of the Mutual Fund Dealer Rules to Dealer Members:

- The Mutual Fund Dealer Rules will apply to Dealer Members who are registered under securities legislation as mutual fund dealers with the exception of mutual fund dealers registered only in Québec.
- Where a Dealer Member is registered under securities legislation as a mutual fund dealer and an investment dealer, the Dealer Member shall be exempt from the Mutual Fund Dealer Rules, provided that they are in compliance with corresponding requirements under the Investment Dealer Partially Consolidated Rules.

A section with respect to exemptions (currently section 37 of MFDA By-law No.1) has been included in Rule 1A which provides that the Board of Directors may exempt any Member, Approved Person, or any other person subject to the jurisdiction of the Corporation from the requirements of any Rule provided that the Board is satisfied that doing so would not be prejudicial to the interests of Members, their clients, or the public.

Definitions are being brought forward from the existing MFDA By-laws. Certain of these definitions are being brought forward in their current form. Other definitions are being brought forward in an amended form (i.e. with conforming amendments that reflect changes in Rule numbering, changes in the location of certain requirements, and changes to reflect the transition to the interim Rulebook). New definitions have been added to reflect the creation of District Hearing Committees in accordance with Rule 7.1.

Rules 6 (Examinations and Investigations), 7 (Discipline) and 8 (Membership Matters)

The following provisions from existing MFDA By-Law No. 1 are being brought forward for adoption into the interim Rulebook, as Mutual Fund Dealer Rules:

- By-Law No.1, section 21 (Examinations and Investigations) – New Rule 6 (Examinations and Investigations)
- By-Law No. 1, section 23 (Co-operation with Other Authorities) – New Rule 6 (Examinations and Investigations)
- By-Law No. 1, sections 19.9 – 19.13 (Hearing Panels) – New Rule 7 (Hearing Panels)
- By-Law No. 1, section 20 (Disciplinary Hearings) – New Rule 7 (Discipline)

- By-Law No. 1, section 24 (Discipline Powers) – New Rule 7 (Discipline)
- By-Law No. 1, section 26 (Review of Decisions) – New Rule 7 (Discipline)
- By-Law No. 1, section 24A (Ombudservice) – New Rule 7 (Discipline)
- By-Law No. 1, subsection 11.2 (Application Approval Process – Submission of Financial Information) – New Rule 8 (Membership Matters)
- By-Law No. 1, subsection 11.7 (Application Approval Process – Review) – New Rule 8 (Membership Matters)
- By-Law No. 1, section 13 (Resignations, Reorganizations and Terminations) – New Rule 8 (Membership Matters)
- By-Law No. 1, subsection 13.9 (Ownership) – New Rule 8 (Membership Matters)
- By-Law No. 1, section 14 (Annual Fees), and section 15 (Other Fees) – New Rule 8 (Membership Matters).

Rules 100 – 1000 (Former MFDA Policies)

MFDA Policies are prescriptive regulatory instruments which establish minimum standards that must be met to comply with requirements under MFDA Rules. All existing MFDA Policies are being brought forward for adoption into the interim Rulebook, as Mutual Fund Dealer Rules. The designation of these regulatory instruments has been changed from "Policy" to "Rule":

- Policy No. 1 (New Registrant Training and Supervision) – Rule 100
- Policy No. 2 (Minimum Standards for Account Supervision) – Rule 200
- Policy No. 3 (Complaint Handling, Supervisory Investigations and Internal Discipline) – Rule 300
- Policy No. 4 (Internal Control Policy Statements) – Rule 400
- Policy No. 5 (Branch Review Requirements) – Rule 500
- Policy No. 6 (Information Reporting Requirements) – Rule 600
- Policy No. 7 (Performance Reporting) – Rule 700
- Policy No. 8 (Proficiency Standards for Approved Persons Selling Exchange Traded Funds – ("ETFs") – Rule 800
- Policy No. 9 (Continuing Education ("CE") Requirements) – Rule 900
- Policy No. 10 (Disclosure of Corporation Membership) – Rule 1000

FORM 1

Form 1 sets out financial reporting, and related requirements with which mutual fund dealers must comply. Currently, financial and operations requirements are set out under MFDA Rule 3. Form 1 has been amended to change "Policy" / "Policies" / "By-Law(s)" to "Rule(s). References to "MFDA" have been deleted, and where appropriate, replaced with "Corporation".

3. **Universal Market Integrity Rules**

No substantive changes to the Universal Market Integrity Rules are being introduced. The only changes being introduced are to remove references to "IIROC", or "IIROC Rules" and replace with "Corporation" or "Corporation Rules". These changes apply to:

- UMIR 1.1 – Definitions
  - "Acceptable Foreign Trade Reporting Facility"
  - "marketplace"
  - "order execution service"
  - "UMIR"
- UMIR 6.2 – Designations and Identifiers
- UMIR Policy 6.4 – Trades to be on a Marketplace
- UMIR Policy 7.1 – Supervision of Trading
- UMIR Policy 8.1 – Client-Principal Trading
- UMIR Policy 10.1 – Compliance Requirement
- UMIR 10.4- Suspension or Restriction of Access
- UMIR 10.15 - Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons

Corporation Investment Dealer and Partially Consolidated Rules

RULE 1100 | INTERPRETATION

1101. Introduction

(1) Rule 1100 sets out general rules of interpretation that apply to the ~~*IIROC*~~*Corporation requirements*, and certain specific interpretative provisions.

1102. General interpretation

(1) If the context requires, words in the singular may include the plural and words in the plural may include the singular.

(2) All times referred to in the ~~*IIROC*~~*Corporation requirements* are Eastern Standard Time, or Eastern Daylight Savings Time when in effect, unless stated otherwise.

(3) References to:

(i) a *Dealer Member* include ~~the *Dealer Member's*~~its *Approved Persons* and *employees*, if the context is appropriate,

(ii) a *Dealer Member's* board of directors include a *Dealer Member's* equivalent governance body for a *Dealer Member* that is not a corporation,

(iii) a corporation, as a type of entity to which the ~~*IIROC*~~*Corporation requirements* apply, includes unincorporated entities if the context is appropriate, and

(iv) provinces include all provinces and territories of Canada.

(4) In the event of any dispute as to the intent or meaning of any provisions within the ~~*IIROC*~~*Corporation requirements*, the interpretation of the *Board* is final, subject to any appeal procedures that may be available.

1103. Delegation by a Dealer Member

(1) If an ~~*IIROC*~~*Corporation requirement* requires an *individual* at a *Dealer Member* to perform a function, that *individual* may delegate the tasks or activities involved in performing the function unless the ~~*IIROC*~~*Corporation requirements* specifically prohibit such delegation.

(2) An *individual* who delegates tasks or activities cannot delegate the responsibility for the function.

1104. Electronic signatures

(1) Subject to *applicable laws*, a *Dealer Member* may use an electronic or digital signature where a signature is required by ~~*IIROC requirements*~~*Corporation requirement s* for an agreement, contract or transaction between a *Dealer Member* and its clients, *Approved Persons*, ~~*IIROC*~~the *Corporation*, other *Dealer Members* or any other *person* unless specifically prohibited.

1105. Transitional provision

(1) Any ~~*IIROC*~~*Corporation* Rule or predecessor Rule of the Investment Industry Regulatory Organization of Canada in effect prior to the coming into force of these ~~*IIROC*~~ Rules shall remain in full force and effect until such prior Rule has been repealed.

(2) Any exemption from a *Corporation* Rule or predecessor Rule of the Investment Industry Regulatory Organization of Canada in effect prior to the coming into effect of these ~~*IIROC*~~ Rules shall remain in effect subsequent to the coming into effect of these ~~*IIROC*~~ Rules:

(i) subject to any condition included in the exemption, and

(ii) provided that the applicable prior ~~*IIROC*~~*Corporation* Rule or predecessor Rule of the Investment Industry Redulatory Orgnaization of Canada on which the exemption is based, continues in these ~~*IIROC*~~ Rules.

1106. – 1199. Reserved.

RULE 1200 | DEFINITIONS

1201. Definitions

(1) Some terms used throughout the ~~*IIROC*~~*Corporation requirements* are defined in subsection 1201(2). Additional terms are set out in ~~*IIROC*~~the *Corporation* General By-Law No. 1 and in Form 1. Terms that are used only in a single Rule are defined in that Rule.

Any term not defined in subsection 1201(2), in ~~*IIROC*~~*Corporation* General By-Law No. 1, in Form 1 or in a specific Rule, which is defined in *securities laws*, has the same meaning as provided for in the *securities laws*.

When a prescribed or adopted policy defines a term that ~~*IIROC*~~the *Corporation requirements* also defines, the definition contained in the policy prevails to the extent of any inconsistency, when interpreting that policy.

(2) The following terms have the meanings set out when used in the ~~*IIROC*~~*Corporation requirements:*

"acceptable clearing corporation"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable counterparty"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable exchange"	The same meaning as set out in Form 1, General Notes and Definitions
"acceptable institutions"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable foreign marketplace"	Any entity operating as: (i) an exchange, or a quotation and trade reporting system, or an alternative trading system for securities or *derivatives* transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation, or (ii) a quotation and trade reporting system, or an alternative trading system for securities or *derivatives* transactions that is subject to the rules of a self-regulatory organization, which is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the exchange's, or the quotation and trade reporting system's, or the alternative trading system's powers of compliance and enforcement over its members or participants.
"acceptable securities locations"	The same meaning as set out in Form 1, General Notes and Definitions.
"actively engaged in the business of the Dealer Member"	Participating in the *Dealer Member's* regular business activities, operations or promotion of a *Dealer Member's* services. It does not include participating in board or board corporate governance committee meetings or occasional referrals to the *Dealer Member* that were not solicited on the *Dealer Member's* behalf.

"advertisement"	Any commercials, commentaries and any published materials promoting a *Dealer Member's* business, including materials disseminated or made available electronically.
"advisory account"	An account which is subject to a suitability determination where: (i) the client is responsible for all investment decisions but is able to rely on advice given by a *Registered Representative*, and (ii) the *Dealer Member* and the *Registered Representative* are responsible for all advice given.
"advisory capacity"	Providing advice to an issuer in return for *remuneration* other than trading advice or related services.
"affiliate"	Where used to indicate a relationship between two corporations, means: (i) one corporation is a *subsidiary* of the other corporation, (ii) both corporations are *subsidiaries* of the same corporation, or (iii) both corporations are *controlled* by the same *person*.
"agent"	An *individual* who is subject to the principal and agent relationship requirements set out in Rule 2300.
~~"applicable District Council"~~	~~The *District Council* for the *District* in which:~~ ~~(i) an applicant for *Membership* or a *Dealer Member* has its head office and, in the case of a *holding company* of an incorporated *Dealer Member*, where the incorporated *Dealer Member* has its head office,~~ ~~(ii) a *business location* is located,~~ ~~(iii) an *individual* applicant for approval or *Approved Person* resides, or~~ ~~(iv) the activities that are the subject of an enforcement proceeding under Rule 8200 primarily occurred, provided that, if the activities that are the subject of the proceeding primarily occurred in more than one *District* or outside of any *District*, then a *hearing panel* assigned to the proceeding shall exercise its discretion to determine the *applicable District Council*, taking into account:~~ ~~(a) the *Districts* in which any clients or other witnesses expected to testify in the proceeding reside,~~ ~~(b) the *District* in which the head office of a *Dealer Member* that is the sole *respondent* in the proceeding, if applicable, is located, and~~ ~~(c) any other factors that the *hearing panel* considers relevant.~~
"applicable laws"	All laws, statutes, ordinances, regulations, rules, orders, judgments, decrees or other regulatory directions, applicable to a *Regulated Person* or its employees, partners, directors or officers, in the conduct of their business.
"approved investor"	An *industry investor* (defined in clause 2102(1)) or any other *person* who requires the approval of ~~*IIROC*~~the *Corporation* to invest in a *Dealer Member*.

"Approved Person"	An *individual* approved by ~~IIROC~~the *Corporation* under ~~the *IIROC requirements*~~these Rules to carry out a function for a *Dealer Member*, namely, the following *individuals*: (i) *Associate Portfolio Manager,* (ii) *Chief Compliance Officer,* (iii) *Chief Financial Officer,* (iv) *Director,* (v) *Executive,* (vi) *Investment Representative,* (vii) *Portfolio Manager,* (viii) *Registered Representative,* (ix) *Supervisor,* (x) *Trader,* or (xi) *Ultimate Designated Person.*
"associate"	The same meaning as set out in General By-law No. 1, section 1.1.
"Associate Portfolio Manager"	An *individual* designated by the *Dealer Member* and approved by ~~*IIROC*~~the *Corporation* to provide discretionary portfolio management for *managed accounts* under the supervision of a *Portfolio Manager*.
"beneficial owner"	A *person* who has *beneficial ownership* of securities.
"beneficial ownership"	Beneficial ownership of securities includes ownership: (i) of securities by: (a) a corporation, or (b) *affiliates* of a corporation, that is controlled by a *person*, or (ii) by a corporation of securities beneficially owned by the *affiliates* of the corporation.
"Board"	The same meaning as set out in General By-law No. 1, section 1.1.
"bundled order"	Has the same meaning as set out in the Universal Market Integrity Rules.
"business day"	A day other than Saturday, Sunday and any statutory holiday in the relevant *District*.
"business location"	A location where an activity that requires registration or ~~*IIROC*~~ *Corporation* approval is carried out by or on behalf of a *Dealer Member*, and includes a residence if regular and ongoing activity that requires registration or approval is carried out from the residence or if *records* relating to an activity that requires registration or approval are kept at the residence.
"carrying broker"	A *Dealer Member* that carries client accounts for another *Dealer Member* or for a mutual fund dealer, which includes the clearing and settlement of trades, the maintenance of *records* of client transactions and accounts, and the custody of client cash and securities, in accordance with the requirements set out in Rule 2400.
"CDS"	CDS Clearing and Depository Services Inc.

~~"CIPF" or "Canadian Investor Protection Fund"~~	~~The same meaning as set out for the term CIPF in General By-law No. 1, section 1.1.~~
~~"CIPF Disclosure Policy"~~	~~The policy setting out the *Canadian Investor Protection Fund's* membership disclosure requirements, as made available on *CIPF's* website.~~
"chartered bank"	A bank incorporated under the Bank Act (Canada).
"Chief Compliance Officer"	An *individual* approved by ~~*IIROC*~~the *Corporation* to act as the chief compliance officer of a *Dealer Member*.
"Chief Financial Officer"	An *individual* approved by ~~*IIROC*~~the *Corporation* to act as the chief financial officer of a *Dealer Member*.
"clearing day"	Any day *CDS* or another *acceptable clearing corporation* is open for business.
"control"	Where used to indicate control of a corporation, means a *person* who has *beneficial ownership* of voting securities in the corporation that carry more than 50% of the votes for election of directors of the corporation and such votes allow the *person* to elect a majority of the directors; but if a *hearing panel* ~~*or District Council*~~ orders that a *person* does or does not control the corporation under ~~*IIROC*~~the *Corporation requirements*, that order defines their relationship under ~~*IIROC*~~the *Corporation requirements*.
"Corporation"	The same meaning as set out in General By-law No. 1, section 1.1.
"Corporation Membership Disclosure Policy"	The policy setting out the Corporation's Membership disclosure requirements for *Dealer Members*, as made available on the *Corporation's* website.
"Corporation requirements"	Requirements set out within the *Corporation's* articles, by-laws and rules, along with all other instruments prescribed or adopted within *Corporation's* by-laws and rules, and *Corporation* rulings, except, for the purposes of these Rules, requirements applicable to mutual fund dealers and their *Approved Persons* and *employees* are to be excluded.
"correspondence"	Any *advertisement* or business related communication, including any written or electronic communication, prepared for distribution to a single current or prospective client, but not for distribution to multiple clients or the general public.
"Dealer Member"	The same meaning as set out in General By-law No. 1, section 1.1, except, for the purposes of these Rules, mutual fund dealers are to be excluded.
"Dealer Member related activities"	Acting as a *Dealer Member*, or carrying on business that is necessary or incidental to being a *Dealer Member*. The *Board* may include or exclude any activities from this definition.
"Dealer Member's auditor"	An auditor on the ~~*IIROC*~~*Corporation* approved list of accounting firms chosen by the *Dealer Member* to be its auditor.
"debt security"	Any security that provides the holder with a legal right, in specified circumstances, to demand payment of the amount owing and includes a debtor-creditor relationship. The term includes securities with short-term maturities or mandatory tender periods such as

	commercial paper and floating rate notes as well as traditional notes and bonds.
"derivative"	A financial instrument whose value is derived from, and reflects changes in, the price of the underlying product. It is designed to facilitate the transfer and isolation of risk and may be used for both risk transference and investment purposes.
~~As described in IIROC Notice 21-0028, this amendment will be effective on September 1, 2022.~~	
"designated rating organization"	The same meaning as set out in Form 1, General Notes and Definitions.
"designated Supervisor"	A *Supervisor* that the *Dealer Member* makes responsible for a supervisory role defined in the ~~*IIROC*~~*Corporation requirements*, including a *Supervisor* responsible for: (i) the supervision of *futures contracts* and *futures contract options* trading accounts under Part D of Rule 3200, (ii) the supervision of *options* trading accounts under Part D of Rule 3200, (iii) the supervision of *discretionary accounts* under Part E of Rule 3200, (iv) the opening of new accounts and the supervision of account activity under Part B of Rule 3900, (v) the supervision of *managed accounts* under Part G of Rule 3900, (vi) the pre-approval of *advertising*, *sales literature* and *correspondence* under Part A of Rule 3600, and (vii) the supervision of *research reports* under Part B of Rule 3600.
"direct electronic access account"	An account which is not subject to suitability determination (other than as required by clauses 3402(3)(i) and 3403(4)(i)) where: (i) the client has been provided with direct electronic access within the meaning of National Instrument 23-103, (ii) the *Dealer Member* provides no recommendations to purchase, sell, hold or exchange any security, including any class of security or security of a class of issuer, and (iii) the *Dealer Member* complies with the Universal Market Integrity Rule requirements applicable to the direct electronic access service offering and the requirements of NI 23-103.
"Director"	A member of a *Dealer Member's* board of directors or an *individual* performing similar functions at a *Dealer Member* that is not a corporation.
"discretionary account"	An account which is subject to the suitability determination and over which the client has given discretionary authority where: (i) the *Dealer Member* has not solicited the discretionary authority, (ii) the discretionary authority is accepted to accommodate a client who is frequently or temporarily unavailable to authorize trades, (iii) the discretionary authority has not been renewed, and (iv) the term of the discretionary authority does not exceed 12 months.
"District"	The same meaning as set out in General By-law No. 1, section 1.1.
~~"District Council"~~	~~The same meaning as set out in General By-law No. 1, section 1.1.~~

"early warning excess"	This is calculated and has the same meaning as set out in Statement C of Form 1.
"early warning reserve"	This is calculated and has the same meaning as set out in Statement C of Form 1.
"equity security"	An interest, investment or security in a corporation in respect of which the holder has no legal right to demand payment until the corporation or its board of directors has passed a resolution declaring a dividend or other distribution or a winding up of the corporation.
"employee"	An employee or *agent* of a *Dealer Member.*
"Enforcement Staff"	~~*IIROC*~~*Corporation* staff who are authorized to conduct enforcement activities on behalf of ~~*IIROC*~~the *Corporation*, including conducting *investigations* and initiating and conducting disciplinary proceedings.
"Executive"	A *Dealer Member's* partner, *Director* or *officer* who is involved in the *Dealer Member's* senior management, including anyone fulfilling the role of chair or vice-chair of the board of directors, chief executive officer, president, chief administrative officer, chief operating officer or a person acting in a similar capacity who is head of operations, *Chief Financial Officer*, *Chief Compliance Officer*, *Ultimate Designated Person*, member of an executive management committee or any other position that the *Dealer Member* designates as an Executive position.
"free credit balance"	Free credit balance means: (i) for cash and margin accounts, the credit balance less an amount equal to the aggregate of: (a) the *market value* of short positions, and (b) margin required on those short positions, and (ii) for futures accounts, the credit balance less an amount equal to the aggregate of: (a) margin required to carry open *futures contracts* or *futures contract option* positions, less (b) any equity in those contracts, plus (c) any deficits in those contracts. However, the aggregate amount must not exceed the dollar amount of the credit balance.
"futures contract"	A contract to make or take delivery of the underlying interest during a designated future month on terms agreed to when the contract is entered on a futures exchange.
"futures contract option"	A right to acquire a long or short position in connection with a *futures contract* on terms agreed to at the time the option is granted and any option that has a *futures contract* as its underlying interest.
"Global Legal Entity Identifier System"	Has the same meaning as set out in the Universal Market Integrity Rules.
"guarantee"	An agreement to be responsible for the liabilities of a *person* or to provide security for a *person*; and includes an agreement to: (i) purchase an investment, property or services, (ii) to supply funds, property or services, or

	(iii) to make an investment, if the agreement's main purpose is to allow a *person* to perform its obligations under a security or investment, or to assure an investor in a security that the *person* will perform its obligations.
"hearing"	A hearing in connection with a proceeding, proposed proceeding or other matter under ~~*IIROC*~~the *Corporation* *requirements*, other than a *prehearing conference* (defined in section 8402).
"hearing committee"	A hearing committee of a *District* appointed under Rule 8300.
"hearing panel"	A panel selected by the *National Hearing Officer* to conduct a *hearing* or *prehearing conference* (defined in section 8402).
"holding company"	Of a corporation means either: (i) another corporation that owns : (a) more than 50 per cent of each class or series of the voting securities, and (b) more than 50 per cent of each class or series of the participating securities, either directly in the corporation or in the holding company of that corporation, but does not include: (ii) an *industry investor* (defined in clause 2102(1)(i)) that owns the corporation's securities in the capacity of an *industry investor*, or (iii) a corporation that the ~~*District Council*~~*Corporation* has ordered is not a holding company of that corporation.
~~"IIROC"~~	~~The same meaning as the term Corporation as set out in General By-law No. 1, section 1.1.~~
~~"IIROC Membership Disclosure Policy"~~	~~The policy setting out *IIROC's* Membership disclosure requirements, as made available on *IIROC's* website.~~
~~"IIROC requirements"~~	~~Requirements set out within *IIROC's* articles, by-laws and rules, along with all other instruments prescribed or adopted within *IIROC's* by-laws and rules, and rulings of *IIROC* and the *District Councils*.~~
"individual"	A natural person.
"industry member"	A current or former director, officer, partner or employee of a *Member* or *Regulated Person*, or an *individual* who is otherwise suitable and qualified for appointment to a *hearing committee.*
"institutional client"	(i) An *acceptable counterparty*, (ii) an *acceptable institution*, (iii) a *regulated entity*, (iv) a registrant under *securities law*, other than an *individual* registrant, or (v) a non-*individual* with total securities under administration or management of more than $10 million.
"internal controls"	The financial and operational policies and procedures established, maintained and applied by the *Dealer Member's* management to

	provide reasonable assurance of the orderly and efficient conduct of the *Dealer Member's* business.
"inter-dealer bond broker"	A *person* that provides information, trading and communications services for domestic *debt securities* trading among *inter-dealer bond broker clients* (defined in section 7302).
"introducing broker"	A *Dealer Member* or a mutual fund dealer that introduces its client accounts to one or more *carrying brokers*, in accordance with the requirements set out in Rule 2450.
"investigation"	The powers of ~~*IIROC*~~the *Corporation* to initiate and conduct enforcement investigations as set out in Rule 8100.
"Investment Representative"	An *individual*, approved by ~~*IIROC*~~the *Corporation*, to trade in, but not advise on, securities, *options*, *futures contracts* or *futures contract options*, on the *Dealer Member's* behalf, including where that *individual* deals only in mutual funds.
"IPF" or "Investor Protection Fund"	The same meaning as set out for the term IPF in General By-law No. 1, section 1.1.
"IPF Disclosure Policy"	The policy setting out the *Investor Protection Fund's* membership disclosure requirements, as made available on *IPF*'s website.
"Legal Entity Identifier"	A unique identification code assigned to a *person* in accordance with standards set by the *Global Legal Entity Identifier System*.
"Legal Entity Identifier System Regulatory Oversight Committee"	Has the same meaning as set out in the Universal Market Integrity Rules.
"listed security"	Has the same meaning as set out in the Universal Market Integrity Rules.
"managed account"	An account which is subject to a suitability determination where: (i) investment decisions are made on a continuing basis by a *Portfolio Manager* or an *Associate Portfolio Manager* or a third party hired by the *Dealer Member*, and (ii) the *Dealer Member,* or a third party hired by the *Dealer Member,* and the *Portfolio Manager* or *Associate Portfolio Manager* are responsible for all investment decisions made.
"manipulative and deceptive activities"	Any manipulative or deceptive methods, act or practice in connection with any order or trade on a marketplace, and includes the entry of an order or the execution of a trade that would create or could reasonably be expected to create: (i) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security, or (ii) an artificial ask price, bid price or sale price for the security or a related security.
"Marketplace"	The same meaning as set out in General By-law No. 1, section 1.1.
"Marketplace Member"	The same meaning as set out in General By-law No. 1, section 1.1.
"market value"	The same meaning as set out in Form 1, General Notes and Definitions.
"Member"	The same meaning as set out in General By-law No. 1, section 1.1.
"Membership"	~~*IIROC*~~*Corporation* membership.

"Monitor"	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.*
"multiple client order"	Has the same meaning as set out in the Universal Market Integrity Rules.
"National Hearing Officer"	A *person* appointed by ~~*IIROC*~~the *Corporation* who is responsible for the administration of enforcement and other proceedings under ~~*IIROC*~~the *Corporation requirements* and other employees of ~~*IIROC*~~the *Corporation* to whom the *person* delegates the performance of such functions.
"non-client accounts" or "non-client orders"	Accounts or orders in which the *Dealer Member* or an *Approved Person* has a direct or indirect interest other than the commission charged.
"officer"	A *Dealer Member's* chair or vice-chair of the board of directors, chief executive officer, president, chief administrative officer, *Chief Compliance Officer*, *Chief Financial Officer*, chief operating officer, vice-president, secretary, any other person designated an officer of a *Dealer Member* by law or similar authority, or any person acting in a similar capacity on behalf of a *Dealer Member*.
"option"	A *derivative* contract that: (i) gives the purchaser the right, but not the obligation, to buy or sell an underlying asset at a certain price (exercise price) on or before an agreed upon date, and (ii) imposes on the seller an obligation, if called upon by the purchaser, to buy in the case of puts, or sell in the case of calls, at the exercise price.
"order execution only account"	An account which is not subject to a suitability determination (other than as required by clauses 3402(3)(i) and 3403(4)(i)) where: (i) the client is solely responsible for making all investment decisions, and (ii) the *Dealer Member* provides no recommendation to purchase, sell, hold or exchange any security, including any class of security or security of a class of issuer.
"Participant"	Has the same meaning as set out in the Universal Market Integrity Rules.
"party"	A party to a proceeding under ~~*IIROC*~~the *Corporation requirements*, including *Enforcement Staff* and ~~*IIROC*~~*Corporation* staff.
"person"	An *individual*, a partnership, a corporation, a government or any of its departments or agencies, a trustee, an incorporated or unincorporated organization, an incorporated or unincorporated syndicate or an *individual's* heirs, executors, administrators or other legal representatives.
"Portfolio Manager"	An *individual* designated by the *Dealer Member* and approved by ~~*IIROC*~~the *Corporation* to provide discretionary portfolio management for *managed accounts*.
"President"	The same meaning as set out in General By-law No. 1, section 1.1.
"public member"	A public member in relation to a *hearing committee* means:

	(i) a current or retired member of the law society of a province, other than Québec, who is in good standing at the law society, or (ii) in Québec, a current or retired member of the Barreau du Québec, who is in good standing at the Barreau.
"recognized foreign self-regulatory organization"	A foreign self-regulatory organization which offers reciprocal treatment to Canadian applicants and which has been recognized by ~~*IIROC*~~the *Corporation* as such.
"records"	Books, records, client files and information and other documentation, including electronic documents, related to the *Investment Dealer Rule Regulated Person's* business.
"Region"	The same meaning as set out in General By-law No. 1, section 1.1.
"Regional Council"	The same meaning as set out in General By-law No. 1, section 1.1.
"Registered Representative"	An *individual*, approved by ~~*IIROC*~~the *Corporation*, to trade, or advise on trades, in securities, *options*, *futures contracts*, or *futures contract options* with the public in Canada, on the *Dealer Member's* behalf, including where that *individual* deals only in mutual funds or only with *institutional clients*.
"regulated entity"	The same meaning as set out in Form 1, General Notes and Definitions.
"Regulated Persons"	The same meaning as set out in General By-law No. 1, section 1.1, except, for the purposes of these Rules, current and former mutual fund dealers and their current and former representatives are to be excluded.
"related company"	A sole proprietorship, partnership or corporation that is a *Dealer Member* and is related to another *Dealer Member* because: (i) it, or its *Executives*, *Directors*, *officers*, shareholders or *employees* (individually or collectively) have at least a 20% ownership interest in the other *Dealer Member*, or (ii) the other *Dealer Member*, or its *Executives*, *Directors*, *officers*, shareholders or *employees* (individually or collectively) have at least a 20% ownership interest in it, where the ownership interest includes an interest as a partner or shareholder, either directly or indirectly, or an interest through one or more *holding companies*. But if the *Board* has ordered that two *persons* are, or are not, related companies under the ~~*IIROC*~~*Corporation requirements*, that order defines their relationship under the ~~*IIROC*~~*Corporation requirements*.
"remuneration"	Any benefit or consideration, including goods and service, monetary or otherwise that could be provided to or received by a *person*.
"repurchase agreement"	An agreement to sell and repurchase securities.
"research report"	Any written or electronic communication for distribution to clients or prospective clients containing an *analyst's* recommendation about the purchase, sale or holding of a security, excluding any government *debt security* or any government guaranteed *debt security*.
"respondent"	A *person* who is the subject of a proceeding or settlement under ~~*IIROC*~~*Corporation requirements*.

"reverse repurchase agreement"	An agreement to purchase and resell securities.
"retail client"	A client that is not an *institutional client*.
"risk adjusted capital"	The capital level maintained by a *Dealer Member*, calculated in accordance with ~~*IIROC*~~the *Corporation requirements* set out in Form 1.
"Rules of Procedure"	The rules of practice and procedure under Rule 8400.
"safekeeping"	The holding of securities by a *Dealer Member* for a client in accordance with the requirements set out in Part A of Rule 4400.
"sales literature"	Any written or electronic communication for client use which contains a recommendation relating to a security or *trading strategy*, but does not include: (i) any communication that is an *advertisement* or *correspondence,* or (ii) preliminary prospectuses and prospectuses.
"sanction"	A penalty imposed by a *hearing panel* or a penalty or other measure imposed under a *settlement agreement*.
"securities laws"	Any laws about trading, distributing, advising or any other related activities in securities, *futures contracts, futures contract options* or *derivatives* in Canada enacted by the government of Canada or any province or territory in Canada and all regulations, rules, orders, judgments and other regulatory directions relating to such laws.
"securities regulatory authority"	Any commission or *person* in Canada, or any province or territory in Canada, authorized to administer *securities laws* and any *person* approved, recognized or authorized as an *SRO* by such commission.
"securities related business"	Any business or activity (whether or not carried on for gain) engaged in, directly or indirectly, which constitutes trading or advising in securities or exchange contracts (including *futures contracts* and *futures contract options*) for the purposes of *securities laws*, including for greater certainty, offers and sales pursuant to exemptions under *securities laws*.
"segregation"	A practice whereby a *Dealer Member* holds in trust client securities that are: (i) held free and clear of any charge, lien, claim or encumbrance of any kind, (ii) ready for delivery to a client on demand, and (iii) held separate from the *Dealer Member's* own security holdings.
"settlement agreement"	A written agreement between ~~*IIROC*~~*Corporation* staff and a *respondent* to settle a proceeding or proposed proceeding under Rule 8200.
"settlement hearing"	A *hearing* relating to a *settlement agreement*.
"shared office premises"	Premises a *Dealer Member* shares with another regulated Canadian financial service entity that is involved in financial activities, such as banking, mutual funds, insurance, deposit taking or mortgage brokerage activities.
"significant area of risk"	A function, process or an activity within a *Dealer Member* in which a failure to mitigate or control its risk could lead to material harm to

	the *Dealer Member's* liquidity, solvency, operational capabilities, clients, client assets and other client positions.
"SRO"	The same meaning as defined in National Instrument 14-101.
"subordinated debt"	Debt that does not entitle the holder to be paid in priority to any senior class of debt.
"subsidiary"	Subsidiary of an entity means: (i) an entity it *controls*, (ii) a corporation it *controls* and one or more corporations *controlled* by that corporation, or (iii) a corporation *controlled* by two or more corporations it *controls*, and includes a corporation that is a subsidiary of another subsidiary of a corporation.
"Supervisor"	An *individual* given responsibility and authority by a *Dealer Member*, and approved by ~~*IIROC*~~the *Corporation*, to manage the activities of the *Dealer Member* or the *Dealer Member's Approved Persons* or *employees* to provide reasonable assurance they comply with ~~*IIROC*~~ the *Corporation* *requirements* and *securities laws*.
"temporary hold"	means a hold that is placed on the purchase or sale of a security on behalf of a client or on the withdrawal or transfer of cash or securities from a client's account.
"total margin required"	The same meaning as set out in Statement B of Form 1.
"trade name"	A name a *Dealer Member* or *Approved Person* uses to conduct business and includes a group name under which a *Dealer Member* and its *affiliates* conduct business.
"Trader"	An *individual*, approved by ~~*IIROC*~~the *Corporation* as a trader, whose activity is restricted to trading through a *Marketplace Member's* trading system, and who may not advise the public.
"trading strategy"	A broad general approach to investments including matters such as the use of specific products, leverage, frequency of trading or a method of selecting particular investments but does not include specific trade or sectoral weighting recommendations.
"Ultimate Designated Person"	An *individual* approved by ~~*IIROC*~~the *Corporation* to be responsible for the conduct of a designated *Dealer Member* and the supervision of its *employees* and to perform the functions for an ultimate designated person described in the ~~*IIROC*~~*Corporation* *requirements*.
"written cash and securities loan agreement"	A written cash loan agreement or securities loan agreement, other than an *overnight cash loan agreement* (as defined in section 4602), where the *Dealer Member* receives or pays cash or, provides or receives securities, that contains the minimum provisions described in Part B of Rule 4600.

1202. – 1299. Reserved.

RULE 1300 | EXEMPTIVE POWERS OF ~~IIROC~~THE CORPORATION

1301. Introduction

(1) Rule 1300 describes the powers of ~~*IIROC*~~the *Corporation* to provide exemptions from ~~*IIROC*~~*Corporation requirements.*

1302. Exemptions from the ~~IIROC~~Corporation requirements

(1) Unless otherwise prescribed by ~~*IIROC*~~the *Corporation requirements*, the *Board* may exempt a *Dealer Member* from any ~~*IIROC*~~*Corporation requirement* if satisfied that doing so would not be prejudicial to the interests of the public, *Dealer Members* or their clients. In granting an exemption, the *Board* may impose any terms or conditions that it considers necessary.

1303. – 1399. Reserved.

RULE 1400 | STANDARDS OF CONDUCT

1401. Introduction

Rule 1400 sets out the general standards of conduct that apply to *Regulated Persons*.

1402. Standards of conduct

(1) A *Regulated Person:*

(i) in the transaction of business must observe high standards of ethics and conduct and must act openly and fairly and in accordance with just and equitable principles of trade, and

(ii) must not engage in any business conduct that is unbecoming or detrimental to the public interest.

(2) Without limiting the generality of the foregoing, any business conduct that:

(i) is negligent,

(ii) fails to comply with a legal, regulatory, contractual or other obligation, including the rules, requirements, and policies of a *Regulated Person*,

(iii) displays an unreasonable departure from standards that are expected to be observed by a *Regulated Person*, or

(iv) is likely to diminish investor confidence in the integrity of securities, futures or *derivatives* markets,

may be conduct that contravenes one or more of the standards set forth in subsection 1402(1).

1403. Applicability

(1) For purposes of ~~*IIROC*~~*Corporation requirements*:

(i) *Dealer Members* are responsible for all acts and omissions of their *employees*, partners, *Directors* and *officers*, and

(ii) non-*Dealer Member* users and subscribers to a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider are responsible for all acts and omissions of their employees, partners, directors, and officers.

(2) In addition to complying with all ~~*IIROC*~~*Corporation requirements*:

(i) an *Approved Person* must avoid any act or omission that would cause their *Dealer Member* to violate any ~~*IIROC*~~*Corporation requirements*, and

(ii) an employee, partner, director or officer of a non-*Dealer Member* user or subscriber of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider must avoid any act or omission that would cause the user or subscriber to violate any ~~*IIROC*~~*Corporation requirements*.

(3) For purposes of section 1402, the obligation of *Regulated Persons* that are non-*Dealer Member* users or subscribers of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider is limited to the obligation to transact business openly and fairly when trading on a *Marketplace* or otherwise dealing in securities that are eligible to be traded on a *Marketplace*.

1404. Policies and procedures

(1) A *Dealer Member* must establish, maintain and apply written policies and procedures regarding the conduct of its business activities and operations.

(2) A *Dealer Member* must establish, maintain and apply written policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance the *Dealer Member*, its *employees* and *Approved Persons* comply with ~~*IIROC*~~*Corporation requirements* and *securities laws*. A *Dealer Member* may establish more stringent policies and procedures than those needed to comply with such requirements.

(3) Guidelines and best practices set out in ~~*IIROC*~~*Corporation* guidance are generally intended to present acceptable methods that can be used to comply with specific ~~*IIROC*~~*Corporation requirements*. Unless otherwise indicated, *Dealer Members* may use alternate methods, provided that those methods demonstrably achieve the overall objective of the ~~*IIROC*~~*Corporation requirements*.

(4) ~~*IIROC*~~The *Corporation* may require a *Dealer Member* to adopt additional or different policies and procedures if the existing policies and procedures are insufficient to comply with ~~*IIROC*~~*Corporation requirements*.

1405. Evidence of compliance with the ~~IIROC~~Corporation requirements

(1) A *Dealer Member* must establish a compliance system for monitoring compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*. The compliance monitoring systems must specifically address preventing and detecting violations and include procedures for reporting the results of compliance monitoring to management.

(2) A *Dealer Member* must keep all *records* and evidence of its compliance with ~~*IIROC*~~*Corporation requirements* that it produces, including supervisory reviews, reports and queries on compliance.

(3) ~~*IIROC*~~The *Corporation* may require a *Dealer Member* to provide it with evidence, satisfactory to ~~*IIROC*~~the *Corporation*, of the *Dealer Member's* compliance with ~~*IIROC*~~*Corporation requirements.*

1406. Compliance with all applicable laws

(1) A *Dealer Member* must comply with all relevant ~~*IIROC*~~*Corporation requirements, securities laws* and *applicable laws* that are applicable to the *Dealer Member's* activities.

(2) Where there is an inconsistency between any ~~*IIROC*~~*Corporation requirements*, *securities laws* and *applicable laws* that apply to the *Dealer Member's* activities, compliance with the most stringent of the ~~*IIROC*~~*Corporation requirements*, *securities laws* or *applicable laws* is required.

1407. Training

(1) A *Dealer Member* must provide training to its *Approved Persons* on compliance with ~~*IIROC*~~*Corporation requirements, securities laws*, and *applicable laws* including, without limitation, the obligations relating to conflicts of interest, know-your-client, account appropriateness, product due diligence, know-your-product, and suitability determination.

1408. – 1499. Reserved.

RULE 1500 | MANAGING SIGNIFICANT AREAS OF RISK

1501. Introduction

(1) As a key element of ~~*IIROC*~~the *Corporation's* regulatory framework, ~~*IIROC*~~the *Corporation* expects that, for every *significant area of risk* within a *Dealer Member,* an appropriate *Executive* be responsible for managing such area of risk.

1502. Responsibility for significant areas of risk

(1) For each *significant area of risk* within a *Dealer Member*, the *Dealer Member* must assign responsibility to an appropriate *Executive*. For certain *significant areas of risk*, ~~*IIROC*~~the *Corporation* has assigned the responsibility to a specific *Executive* as set out in the ~~*IIROC*~~*Corporation requirements*.

(2) The *Dealer Member* must document and maintain a list of *Executives* and the *significant areas of risk* each *Executive* is responsible for managing.

(3) *Executives* are responsible for the review and approval of any policies and procedures relating to their *significant area of risk*.

1503. – 1999. Reserved.

RULE 2100 | OWNERSHIP OF A DEALER MEMBER'S SECURITIES

2101. Introduction

(1) Rule 2100 covers the issuance of securities by a *Dealer Member* or its *holding company* and changes in ownership.

(2) A *Dealer Member* must conduct its business with integrity and must maintain adequate financial resources. ~~*IIROC*~~The *Corporation* has a responsibility to ensure that *person*s who have an interest in a *Dealer Member* are fit and proper. ~~*IIROC*~~The *Corporation* also needs to assess whether the obligations incurred by a *Dealer Member* under the terms of securities it issues pose a risk to the *Dealer Member*.

2102. Definitions

(1) The following terms have the meaning set out below when used in sections 2103 through 2117:

"industry investor"	Any of the following that hold a *beneficial ownership* interest in a *Dealer Member* or its *holding company*: (i) a full-time *officer* or *employee* of the *Dealer Member*, or of a *related company* or *affiliate* of the *Dealer Member*, that conducts *Dealer Member related activities.* (ii) a spouse of an *individual* referred to in clause (i) of this definition, (iii) an investment corporation, if: (a) all of the *individuals* referred to in clause (i) of this definition collectively hold the majority of each class of voting securities of the investment corporation, or (b) all of the *beneficial owners* of all other *equity securities* of the investment corporation are: (I) *individuals* referred to in clauses (i) or (ii) of this definition, (II) children of *individuals* referred to in clauses (i) and (ii) of this definition, or (III) *individuals* and organizations that separately qualify as *industry investors* of a *Dealer Member* or its *holding company*, (iv) a family trust established and maintained for the benefit of *individuals* referred to in clauses (i) and (ii) of this definition or their children, if: (a) all of the *individuals* referred to in clauses (i) or (ii) this definition collectively have full direction and control of the trust, including its investment portfolio and the exercise of voting and other rights of the trust's investments, and (b) all of the trust's beneficiaries are: (I) *individuals* referred to in clauses (i) or (ii) of this definition, (II) children of *individuals* referred to in clauses (i) and (ii) of this definition, or (III) *individuals* and organizations that separately qualify as *industry investors* of the *Dealer Member* or its *holding company*, (v) a registered retirement savings plan, established under the Income Tax Act (Canada), of an *individual* referred to in clauses (i) or (ii) of this definition if that *individual* has control of its investment policy and has the only *beneficial ownership* interest in the registered savings plan,

	(vi) the *Dealer Member's* pension fund if the investment decisions relating to that pension fund are made by the *individuals* referred to in clause (i) of this definition, (vii) an estate of an *individual* referred to in clauses (i) or (ii) of this definition for one year after the death of the *individual,* or such longer period allowed by the ~~*applicable District Council*~~*Corporation*, or (viii) any *individual* or organization, for a period of 90 days, or such longer period as ~~*IIROC*~~the *Corporation* may permit, after: (a) the date the *individual* is no longer an *employee* of the *Dealer Member*, its *related company* or *affiliate*, in the case of an *individual* that previously qualified as an *industry investor* under clause (i) of this definition, or (b) the *person* through whom the *individual* or organization previously qualified as an *industry investor* is no longer an *employee* of the *Dealer Member*, its *related company* or *affiliate*, in the case of *individuals* and organizations that previously qualified as an *industry investor* under clauses (ii) through (v) of this definition. An *industry investor* must be approved by the board of directors of the *Dealer Member* or its *holding company*. The *industry investor* must also be approved by the ~~*applicable District Council*~~*Corporation* if the *industry investor* has a *significant equity interest* in the *Dealer Member* or its *holding company*.
"qualified independent underwriter"	For a distribution of a *Dealer Member's* securities or its *holding company's* securities, it means another *Dealer Member*: (i) which has been in the securities business for no less than the five years immediately preceding the date that the prospectus (or other equivalent document) is filed, (ii) where, as of the distribution date, the majority of its board of directors (if a corporation) or the majority of its general partners (if a partnership), have been in the securities business for no less than the five years immediately preceding the distribution date, (iii) which has underwritten public offerings of securities for no less than the five years immediately preceding the distribution date, and (iv) which is not an *associate* or *affiliate* of the issuing entity.
"significant equity interest"	(i) A holding of 10% or more of the voting securities of a *Dealer Member* or its *holding company*, (ii) a holding of 10% or more of the outstanding participating securities of a *Dealer Member* or its *holding company*, or (iii) an interest of 10% or more of the total equity of the *Dealer Member*.

2103. Dealer Members must have ~~IIROC~~Corporation approval to issue subordinated debt

(1) A *Dealer Member* or its *holding company* must obtain ~~*IIROC*~~the *Corporation's* approval in writing before issuing a security representing *subordinated debt*.

(2) A *Dealer Member* or its *holding company* must obtain ~~*IIROC*~~the *Corporation's* approval in writing before signing an agreement to issue *subordinated debt* in the future.

2104. Repayments and additional subordinated debt

(1) A *Dealer Member* must obtain ~~*IIROC*~~the *Corporation's* approval in writing before it can issue any additional securities representing *subordinated debt* or repay any *subordinated debt*.

2105. Agreements with ~~IIROC~~the Corporation

(1) Where ~~*IIROC*~~the *Corporation* is a party to a *subordinated debt* agreement or other debt agreement with the *Dealer Member*, the *Dealer Member* must comply with the agreement in making any repayments of the debt subject to the agreement.

2106. ~~IIROC~~Corporation notification of changes of ownership

(1) A *Dealer Member* must notify ~~*IIROC*~~the *Corporation* in writing and file the form specified by ~~*IIROC*~~the *Corporation* at least 20 days before issuing or transferring its securities or its *holding company's* securities, including any legal or *beneficial ownership* interest in either.

(2) Subsection 2106(1) does not apply to a class of securities if:

(i) there is public ownership of those securities as a result of a distribution made in compliance with *securities laws*, and

(ii) the purchase or transfer will not result in an acquirer of the securities owning a *significant equity interest.*

2107. Ownership of another Dealer Member

(1) An *industry investor* is prohibited from purchasing the securities of a *Dealer Member* or its *holding company*, other than in the *Dealer Member* or *holding company* in which the *industry investor* is approved, except if:

(i) there is public ownership of the class of securities as a result of a distribution made in compliance with *securities laws* and the *industry investor* will not hold a *significant equity interest*,

(ii) the *Dealer Member* is a *related company* or an *affiliate* of the *Dealer Member* in which the *industry investor* was approved to invest, or

(iii) the following apply:

(a) the investment does not exceed 10% of any class of the issued equity or voting shares,

(b) the *industry investor* notified ~~*IIROC*~~the *Corporation* of the investment,

(c) where the *industry investor* is regulated by another *securities regulatory authority*, the *industry investor* has provided ~~*IIROC*~~the *Corporation* with evidence that the *securities regulatory authority* does not object to the relationship, and

(d) the *Dealer Member* that the *industry investor* was approved to invest in does not object to the investment.

2108. Ownership of a significant equity interest and ownership of assets

(1) For the purpose of section 2108, "all or a substantial part of the assets" of a registered firm includes, among other things, a registered firm's book of business, business line or division of the firm.

(2) A *Dealer Member* must file the form specified by ~~*IIROC*~~the *Corporation* and obtain *Corporation* approval ~~from the *applicable District Council*~~ before allowing a *person*, alone or together with *associates* and *affiliates*, to directly or indirectly, own or hold a *beneficial ownership* interest in:

(i) a *significant equity interest* in the *Dealer Member*, or

(ii) special warrants or other securities that are convertible into a *significant equity interest* in the *Dealer Member*.

(3) The written request for approval under subsection 2108(2) must be delivered to the ~~*applicable District Council*~~*Corporation* at least 30 days before the proposed ownership change and must include all relevant facts regarding the ownership change sufficient to enable the ~~*applicable District Council*~~*Corporation* to determine if the ownership change is:

(i) likely to give rise to a conflict of interest,

(ii) likely to hinder the *Dealer Member* in complying with ~~*IIROC*~~*Corporation requirements* or *securities laws*,

(iii) inconsistent with an adequate level of investor protection, or

(iv) otherwise prejudicial to the public interest.

(4) Subsection 2108(2) does not apply to the legal representatives of a deceased person who had been approved by the ~~*applicable District Council*~~*Corporation* as the owner of a *significant equity interest*. The legal representatives can continue as a registered holder or to hold a *significant equity interest* for a period as permitted by the ~~*applicable District Council*~~*Corporation*.

~~(5) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

~~(6~~) A *Dealer Member* must file a written request for approval from the ~~*applicable District Council*~~*Corporation* at least 30 days before the proposed acquisition if it proposes to acquire all or a substantial part of the assets of a registered firm, or if all or a substantial part of the *Dealer Member* assets are to be acquired, and must include all relevant facts regarding the proposed acquisition sufficient to enable the ~~*applicable District Council*~~*Corporation* to determine if the acquisition is:

(i) likely to give rise to a conflict of interest,

(ii) likely to hinder the *Dealer Member* in complying with ~~*IIROC*~~*Corporation requirements* or *securities laws*,

(iii) inconsistent with an adequate level of investor protection, or

(iv) otherwise prejudicial to the public interest.

(~~7~~6) A *Dealer Member* must not complete a proposed acquisition requiring notice under subsection ~~2108(6~~2108(5) until the ~~*applicable District Council*~~*Corporation* approves the proposed acquisition.

(~~8~~7) *Dealer Members* acquiring securities or assets of another registered firm for a client in nominee name do not need to provide notice under Rule 2100.

2109. A Dealer Member's ownership of another Dealer Member

(1) A *Dealer Member* or its *holding company* must obtain approval from the ~~*applicable District Council*~~*Corporation* before purchasing, directly or indirectly, any securities of another *Dealer Member* or its *holding company*. However, this does not apply if the ownership is a trading position held in the ordinary course of the securities business.

~~(2) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

2110. Public ownership

(1) A *Dealer Member* must obtain approval from the ~~*applicable District Council*~~*Corporation* before allowing public ownership of the *Dealer Member's* securities or of its *holding company's* securities.

(2) When ~~a *District Council*~~the *Corporation* considers an application for approval:

(i) the *Dealer Member* must satisfy the ~~*District Council*~~*Corporation* that it complies with, and will continue to meet, ~~*IIROC*~~*Corporation requirements*,

(ii) the ~~*District Council*~~*Corporation* may require the *Dealer Member* to provide a legal opinion and any other information ~~the *District Council*~~it considers necessary, and

(iii) the ~~*District Council*~~*Corporation* may impose conditions on and require undertakings from any *person* it considers necessary to provide reasonable assurance of continuing compliance with ~~*IIROC*~~*Corporation requirements*.

(3) Regardless of its own governing corporate statute, a

(i) *Dealer Member,* or

(ii) *holding company* of a *Dealer Member,*

that is a reporting issuer or equivalent in any Canadian jurisdiction must set up and maintain an audit committee as the Canada Business Corporations Act requires.

(4) ~~A *District Council*~~The *Corporation* may exempt a *Dealer Member* or its *holding company* from subsection 2110(3).

~~(5) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

2111. Public distribution of a Dealer Member's securities

(1) A *Dealer Member* or its *holding company* making a public distribution of its securities must include in the prospectus, or equivalent document, summaries of at least two separate valuations of its securities, if:

(i) the *Dealer Member* is underwriting more than 25% of the distribution itself, or

(ii) the distribution is offered on an agency or best efforts basis.

(2) *Qualified independent underwriters* or chartered accountants must prepare the valuations and summaries. A *qualified independent underwriter* participating in the distribution may prepare a valuation.

(3) Subsection 2111(1) does not apply if securities with identical attributes have been trading on an exchange in Canada for at least six months before the new distribution begins.

2112. Take-over bids or amalgamations

(1) A *Dealer Member* or its *holding company* must obtain at least two separate valuations of its securities if they are distributed through a transaction such as a take-over bid or amalgamation resulting in a publicly traded market for the securities.

(2) *Qualified independent underwriters* or chartered accountants must prepare the valuations and summaries. A *qualified independent underwriter* participating in the distribution may prepare the valuations and summaries.

(3) Subsection 2112(1) does not apply if:

(i) securities with identical attributes have been trading on an exchange in Canada for at least six months before the transaction, or

(ii) the circumstances of the transaction, such as the terms of the transaction, were arrived at through arm's length negotiations and the ~~*applicable District Council*, or its delegate~~*Corporation*, determines that valuations are not required.

2113. Secondary distribution of securities

(1) The requirements of sections 2111 and 2112 apply, with necessary changes, to a secondary distribution of securities of a *Dealer Member* or its *holding company* if the securities are distributed from a *control* position.

2114. Soliciting trades in a Dealer Member's securities

(1) A *Dealer Member* may solicit trades in its own securities or those of its *holding company* when:

(i) making a distribution of its own securities under a prospectus in compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*, or

(ii) making a private placement of its own securities under *securities laws*.

(2) A *Dealer Member* must not solicit trades in its own securities or its *holding company* in the secondary market.

(3) A *Dealer Member* may accept unsolicited orders for its own securities or those of its *holding company*.

2115. Dealer Member's securities in client accounts

(1) A *Dealer Member* may accept its own securities or those of its *holding company* as security for a margin account subject to ~~*IIROC*~~*Corporation requirements* including, but not limited to, Schedule 9 of Form 1.

(2) A *Dealer Member* must not allow a *discretionary account* to hold the *Dealer Member's* securities or those of its *holding company*.

2116. Research reports

(1) A *Dealer Member* must not issue research reports or opinion letters on its own securities or those of its *holding company*.

2117. ~~IIROC~~Corporation approvals

(1) A *Dealer Member* must apply to ~~*IIROC*~~*Corporation* to obtain an approval required under Rule 2100.

~~(2) The *Dealer Member's* application will be considered by the *applicable District Council*.~~

~~(3~~) The applicant must pay the prescribed fee.

(~~4~~3) Within 10 days after any event that gives rise to a change in the information submitted pursuant to an application for approval, including any bankruptcy or criminal proceedings, the applicant and the *Dealer Member* or *holding company* involved must inform ~~*IIROC*~~the *Corporation* of the change in the applicant's information.

(~~5~~4) ~~A *District Council*~~The *Corporation* may refuse an application for approval or may withdraw any approval it has granted.

~~(6) A *District Council* may delegate their authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

2118. - 2199. Reserved.

RULE 2200 | DEALER MEMBER ORGANIZATION

2201. Introduction

(1) A *Dealer Member* must take reasonable care to organize and manage its business responsibly and effectively. A *Dealer Member's* business must be organized to enable adequate supervision of all of its activities and cannot be organized to avoid ~~*IIROC*~~*Corporation requirements*.

(2) Rule 2200 is divided into the following parts:

Part A – Dealer Member Structure

Part A.1 –Business locations
[section 2202]

Part A.2 –Holding companies, related companies and order execution only service providers
[sections 2205 through 2207]

Part A.3 –Non-securities business and shared premises
[sections 2215 and 2216]

Part B – Dealer Member Membership Changes
[sections 2220 through 2228]

Part C – Business Change Notification Requirements
[sections 2245 through 2248]

Part D – Branch Offices of Dealer Members
[sections 2265 through 2268]

Part E – Trade Names and Disclosures
[sections 2280 through 2285]

PART A – DEALER MEMBER STRUCTURE

PART A.1 - BUSINESS LOCATIONS

2202. Business locations

(1) Under sub-clause 2803(2)(i)(g), a *Dealer Member* must notify ~~*IIROC*~~the *Corporation* of the opening or closing of a *business location*.

2203. – 2204. Reserved.

PART A.2 - HOLDING COMPANIES, RELATED COMPANIES AND ORDER EXECUTION ONLY SERVICE PROVIDERS

2205. Holding companies

(1) A *Dealer Member* must ensure that all its *holding companies* carrying on business in Canada are legally bound to comply with ~~*IIROC*~~*Corporation requirements* applicable to *holding companies*.

(2) A *Dealer Member's holding company* may be another *Dealer Member's holding company* if:

(i) the *holding company* owns all of the voting securities and participating securities of ~~a~~an *Dealer Member*, or

(ii) the *Dealer Member* obtains *Corporation* approval ~~from the *District Council* or its delegate~~ to become the *holding company* of a second *Dealer Member*.

2206. Related companies

(1) A *Dealer Member*, or an *employee, Approved Person,* or investor of a *Dealer Member,* must obtain *Corporation* approval ~~from the *applicable District Council*~~ before it sets up, or acquires any interest in, a *related company* or *associate*.

(2) A *Dealer Member* must obtain *Corporation* approval ~~from the *applicable District Council*~~ before creating a wholly owned *subsidiary* whose principal business is a securities broker, dealer or adviser.

(3) A *Dealer Member* must be responsible for and *guarantee* its *related companies*' obligations to clients, and each of its *related companies* must be responsible for and *guarantee* the *Dealer Member's* obligations to its clients, as follows:

(i) a *Dealer Member* that holds an interest in a *related company* must *guarantee* an amount equal to 100% of the *Dealer Member's* financial statement capital,

(ii) a *Dealer Member* that holds an interest in a *related company* must have the *related company guarantee* an amount equal to the *Dealer Member's* percentage ownership multiplied by the *related company's* financial statement capital, and

(iii) where two *related companies* are related because the same *person* has an ownership interest of at least 20% in each of them, the *related companies* must *guarantee* each other for an amount equal to that *person's* ownership percentage multiplied by the company's financial statement capital.

(4) A *Dealer Member,* and each of the *Dealer Member's related companies* that are required to *guarantee* an amount under subsection 2206(3), must sign the current ~~*IIROC*~~*Corporation guarantee* form.

(5) The *Board* may exempt a *Dealer Member* from subsection 2206(3), or may decide that a *guarantee* for a greater amount is required.

~~(6) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

2207. Approval as an order execution only account services provider

(1) ~~*IIROC*~~The *Corporation* may approve a *Dealer Member* or a business unit of a *Dealer Member* to be an *order execution only account* service provider if the *Dealer Member's* only business is an *order execution only account se*rvice provider or it provides that service in a separate business unit.

(2) A *Dealer Member* that is offering *order execution only account* services must comply with all ~~*IIROC*~~*Corporation requirements* other than those for which compliance is specifically exempted.

(3) A *Dealer Member's* policies and procedures must specifically address the operation of its *order execution only account* services.

(4) If operating as a separate business unit within a *Dealer Member*, an *order execution only account* services provider must have separate letterhead, accounts and account documentation, and its *Registered Representative*s and *Investment Representatives* may not work for any other business unit within the *Dealer Member*.

(5) A *Dealer Member* must not compensate *employees* by giving them trade commissions for transactions executed in *order execution only accounts*.

2208. – 2214. Reserved.

PART A.3 - NON-SECURITIES BUSINESS AND SHARED PREMISES

2215. Business other than securities

(1) A *Dealer Member* must obtain *Corporation* approval ~~from the *applicable District Council*~~ before carrying on any business other than *Dealer Member related activities*.

(2) A *Dealer Member* or a *Dealer Member's holding company* may, without *Corporation* approval, own an interest in a corporation (other than the *Dealer Member*) that carries on non-securities business if:

(i) the *Dealer Member* is not responsible for any of that corporation's liabilities, and

(ii) the *Dealer Member* and its *holding company* give ~~*IIROC*~~the *Corporation* notice before acquiring an interest in the non-securities corporation.

~~(3) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.~~

2216. Shared office premises

(1) For the purposes of section 2216, a "financial services entity" means an entity regulated by a *securities regulatory authority* or by another Canadian financial services regulatory regime such as banking, mutual funds, insurance, deposit-taking, or mortgage brokerage activities.

(2) A *Dealer Member* may share premises with another *financial services entity*, whether or not they are *related companies* or *affiliate* companies, in accordance with section 2216. This section applies to *Dealer Members* dealing with *retail clients*.

(3) A *Dealer Member* must ensure that clients clearly understand which legal entity they are dealing with.

(4) A *Dealer Member's* policies and procedures must specifically address:

(i) supervision of *shared office premises*,

(ii) representative compliance with ~~*IIROC*~~*Corporation requirements,* and

(iii) that clients clearly understand which entity they are dealing with.

(5) A *Dealer Member* must have:

(i) adequate supervisory resources to carry out its supervisory procedures,

(ii) a system for communicating ~~*IIROC*~~*Corporation requirements* to representatives at the *shared office premises*, and

(iii) a process that provides reasonable assurance representatives understand and comply with ~~*IIROC*~~*Corporation requirements*.

(6) A *Dealer Member's shared office premises* must be laid out and operated in a manner that ensures the control and confidentiality of client information and client *records* by ensuring that client *records* and account process areas are effectively controlled and physically secure.

(7) A *Dealer Member* must have appropriate signs and disclosure which differentiates the entities sharing the premises.

(8) The legal names under which the *Dealer Member* and each of the other financial services entities operate must be clearly displayed in a prominent location, such as the office entrance door or reception area.

(9) The ~~*Canadian*~~ *Investor Protection Fund* logo and brochures must be displayed in a manner that makes it clear that they are applicable only to the *Dealer Member* and not to any other *financial services entity*.

(10) When doing business in *shared office premises*, a *Dealer Member* must comply with Part E of Rule 2200.

(11) A *Dealer Member* must keep client *records* separate from the records of another *financial services entity* as follows:

(i) the *financial services entity* must not have access to the client's hard copy *records*, and

(ii) electronic *records* must have separate passwords or another similar control to ensure the *financial services entity* has no access to the electronic client *records* of the *Dealer Member*.

(12) When a *Dealer Member*, operating in a *shared office premises* opens an account, the *Dealer Member* must obtain the client's specific acknowledgement of a written disclosure statement:

(i) outlining the relationship between the *Dealer Member* and the *financial services entity* sharing the premises, and

(ii) stating that the entities are separate.

(13) A *Dealer Member* must keep client information confidential and can only share the information with other *financial services entities* in the *shared office premises* if:

(i) the client has consented to the disclosure of confidential information in compliance with applicable federal, provincial, and territorial privacy legislation and regulations, and

(ii) the client has consented to the disclosure of client information through a specific confirmation such as a signature or initials at a designated place. A *Dealer Member* must not obtain a client's consent through a negative consent option.

(14) An *employee* who works for both the *Dealer Member* and another *financial services entity* must not disclose client information from one organization to the other unless performing a relevant service that the client has specifically consented to and the client has consented to the disclosure of the client information.

(15) Non-registered personnel employed by the *Dealer Member* or representatives of the *financial services entity* may not provide the following services on behalf of the *Dealer Member*:

(i) opening accounts,

(ii) distributing or receiving order forms for securities transactions,

(iii) assisting clients to complete order forms for securities transactions,

(iv) giving recommendations or any advice on any activity,

(v) completing know-your-client information on an account application, other than biographical information, and

(vi) soliciting securities transactions.

(16) Non-registered personnel employed by the *Dealer Member* or representatives of the *financial services entity* may provide the following services on behalf of the *Dealer Member*:

(i) advertising the *Dealer Member's* services and products,

(ii) delivering or receiving clients' securities,

(iii) arranging client appointments or informing of deficiencies on completed forms,

(iv) providing the status, balances, and holdings of client accounts,

(v) providing quotes and other market information,

(vi) contacting the public, inviting the public to seminars, and forwarding non-securities information,

(vii) distributing account applications, subject to subsection 2216(17), and

(viii) receiving completed account applications to forward to the *Dealer Member* for approval.

(17) At the *shared office premises*, a manager, assistant manager or credit officer of the *financial services entity* who has a high degree of knowledge about the client's financial affairs may help the client to complete the account application, if:

(i) no *Approved Person* is available,

(ii) the client's *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* complies with ~~*IIROC*~~*Corporation requirements* relating to know-your-client and suitability determination by reviewing the account application with the client before any trade is conducted or a recommendation is made to a client, and

(iii) a *Supervisor* has approved the account application before any trade is conducted for a client.

(18) A mutual fund sales *person* may only accept orders for accounts at the dealer which they are registered with and may not:

(i) offer, or advise clients on, equities or other transactions for which specific proficiency is required, or

(ii) communicate those client orders to a qualified *person*.

2217. – 2219. Reserved.

PART B - DEALER MEMBER MEMBERSHIP CHANGES

2220. Introduction

(1) Part B of Rule 2200 sets out how ~~*IIROC*~~the *Corporation* deals with changes to the *Membership* of *Dealer Members*.

2221. Notice of intention to resign

(1) If a *Dealer Member* intends to resign, it must notify ~~*IIROC*~~the *Corporation* in writing of its intention by filing a letter of resignation. ~~*IIROC*~~The *Corporation* will issue a Notice advising of the *Dealer Member's* intention to resign within one week of receiving a *Dealer Member's* intent to resign.

2222. Letter of resignation and supporting documents

(1) A resigning *Dealer Member* must state its reasons for resigning in its resignation letter and file the following supporting documents with ~~*IIROC*~~the *Corporation*:

(i) audited financial statements indicating the *Dealer Member* has liquid assets sufficient to meet its outstanding liabilities other than subordinated loans, and

(ii) a report from the *Dealer Member's auditor* indicating that all client accounts and assets have been transferred to another *Dealer Member* or returned to the clients.

2223. Acquisition and resignation

(1) If all or a substantial part of the business and assets of a resigning *Dealer Member* is acquired by another *Dealer Member*, the resigning *Dealer Member* must provide ~~*IIROC*~~the *Corporation* with:

(i) either, an undertaking from the acquiring *Dealer Member* accepting responsibility for all outstanding liabilities of the resigning *Dealer Member*, or the documents required under section 2222, and

(ii) pro forma financial statements of the acquiring *Dealer Member* showing compliance with ~~*IIROC*~~*Corporation requirements* relating to capital requirements.

2224. Amalgamation of Dealer Members

(1) If two or more *Dealer Members* are amalgamated, the *Dealer Members* not continuing due to the amalgamation must surrender their *membership*. The continuing *Dealer Member* must provide ~~*IIROC*~~the *Corporation* with:

(i) an undertaking that it accepts responsibility for all liabilities of the *Dealer Members* that are amalgamating, and

(ii) pro forma financial statements of the continuing *Dealer Member* showing compliance with ~~*IIROC*~~*Corporation requirements* relating to capital requirements.

2225. Amalgamation with a non-Dealer Member

(1) A *Dealer Member* may amalgamate with a non-*Dealer Member* if the continuing *Dealer Member* provides ~~*IIROC*~~the *Corporation* with:

(i) information, satisfactory to ~~*IIROC*~~the *Corporation*, confirming that the continuing *Dealer Member* will have policies and procedures sufficient to carry on its business and comply with ~~*IIROC*~~*Corporation requirements*, and

(ii) pro forma financial statements of the continuing *Dealer Member* showing compliance with ~~*IIROC*~~*Corporation requirements* relating to capital requirements.

2226. Effective date of resignation

(1) Resignation of a *Dealer Member* is effective on the date following the day on which the following conditions have all been satisfied:

(i) ~~*IIROC*~~the *Corporation* has received the documents required to support the resignation,

(ii) ~~*IIROC*~~the *Corporation* has received payment of any amount owed to ~~*IIROC*~~it,

(iii) ~~*IIROC*~~the *Corporation* has confirmed that no complaints or disciplinary actions are outstanding that ~~*IIROC*~~the *Corporation*, in its sole discretion, determines must be resolved prior to permitting the *Dealer Member* to resign, and

(iv) the *Board* has approved the *Dealer Member's* resignation.

(2) Notwithstanding the above, and without limiting the discretion that the *Board* may have to exempt a *Dealer Member* from any ~~*IIROC*~~*Corporation requirement*, where circumstances warrant, the *Board* may exercise discretion to postpone the effective date of a *Dealer Member's* resignation.

(3) ~~*IIROC*~~The *Corporation* will issue a notice within one week of the effective date of a *Dealer Member's* resignation advising of the effective date of the *Dealer Member's* resignation.

2227. Payment of ~~IIROC~~Corporation fees

(1) A resigning, suspended, terminated or surrendering *Dealer Member* must make full payment of its annual membership fees for the entire fiscal year in which its resignation, suspension, termination or surrender becomes effective, subject to the exception set out in subsection 2227(2).

(2) A resigning, suspended or terminated *Dealer Member* may make payment of its membership fees until the end of the fiscal quarter in which the following conditions have been met:

(i) the *Dealer Member* has transferred all customer accounts to another *Dealer Member,*

(ii) the *Dealer Member* has no remaining *Approved Persons* other than shareholders, the *Ultimate Designated Person*, the *Chief Compliance Officer* and the *Chief Financial Officer*, and

(iii) in the case of a resigning *Dealer Member*, the *Dealer Member* has provided written notice of its resignation to ~~*IIROC*~~the *Corporation*.

2228. Inactive Dealer Members

(1) A *Dealer Member* may apply to the *Board* to have its *membership* status temporarily changed to inactive. *Dealer Members* must file their applications in writing and must include reasons for the requested change.

(2) The *Board* must impose a time limit and may impose conditions on a *Dealer Member's* inactive status.

(3) When a *Dealer Member's* status changes to inactive, ~~*IIROC*~~the *Corporation* must publish a notice indicating so.

(4) A *Dealer Member* with inactive status may apply in writing to the *Board* for an extension to the time period of its inactive status if:

(i) the written application is made at least 30 days before the *Dealer Member's* inactive status expires, and

(ii) the inactive status period has not been extended previously.

(5) When a *Dealer Member's* inactive status or the extension to the period of time established by the *Board* for inactive status expires, the *Dealer Member's* status will automatically revert to that of a *Dealer Member*.

2229. – 2244. Reserved.

PART C - BUSINESS CHANGE NOTIFICATION REQUIREMENTS

2245. Introduction

(1) ~~*IIROC*~~The *Corporation* may review the changes in a *Dealer Member's* business, listed in section 2246, to ensure they meet ~~*IIROC's*~~*Corporation requirements*.

2246. Dealer Member's notice of changes to ~~IIROC~~the Corporation

(1) A *Dealer Member* must notify ~~*IIROC*~~the *Corporation* in writing a minimum of 20 days before:

(i) changing its name,

(ii) changing its constitution in a way that affects voting rights,

(iii) taking any steps to dissolve, wind up, surrender its charter, liquidate or dispose of all or substantially all its assets, or

(iv) altering its capital structure including, allotting, issuing, repurchasing, redeeming, canceling, subdividing or consolidating of any shares in its capital.

(2) A *Dealer Member* must notify ~~*IIROC*~~the *Corporation* in writing before any material change to its business activities.

2247. ~~IIROC informs Dealer Member about~~Notice of review ~~when necessary~~

(1) A *Dealer Member* must not make any of the changes listed in section 2246 if, within the 20 day notice period, ~~*IIROC*~~the *Corporation* informs the *Dealer Member* that it will be ~~submitting~~reviewing the proposed change ~~to~~and the ~~*applicable District Council* for~~change will require *Corporation* approval.

2248~~. District Council reviews proposed changes~~

~~(1) The *District Council* will review any proposed change *IIROC* submits to it under section 2247 and either:~~

~~(i) approve the proposed change,~~

~~(ii) approve the proposed change with conditions, or~~

~~(iii) refuse it, if it considers the change would result in the *Dealer Member* being unable to comply with *IIROC's requirements.*~~

~~2249~~. – 2264. Reserved.

PART D - BRANCH OFFICES OF DEALER MEMBERS

2265. Introduction

(1) Part D of Rule 2200 describes how *Dealer Member*s' branch offices participate in ~~*IIROC*~~the *Corporation* and its ~~*Districts*~~*Regions*.

2266. Branch office members

(1) Every *Dealer Member's business location* in a ~~*District*~~*Region* with a *Supervisor,* who is normally present at the *business location,* is a branch office member of the ~~*District*~~*Region*.

2267. Branch office member's representation

(1) A branch office member may participate in governing the ~~*District*~~*Region* in which the branch office is located, as follows:

(i) it has the same privileges in its ~~*District*~~*Region* as any other branch office member, except that at a ~~*District*~~*Region* meeting, a *Dealer Member* only has one vote in the ~~*District*~~*Region*, no matter how many branch office members it has, and

(ii) its ~~*District*~~*Region* representative is eligible for election as chair, vice-chair or member of the ~~*District*~~*Regional Council* for that ~~*District*~~*Region*.

2268. Fees

(1) A *Dealer Member* does not have to pay an annual fee or entrance fee for its branch office members.

2269. – 2279. Reserved.

PART E - TRADE NAMES AND DISCLOSURES

2280. Introduction

(1) Part E of Rule 2200 covers a *Dealer Member's* use of trade names, ~~*IIROC Membership*~~*Corporation* membership disclosure and ~~*Canadian*~~ *Investor Protection Fund* membership disclosure.

2281. Trade names

(1) If a *Dealer Member* carries on business under a *trade name*, the *trade name* must be owned by the *Dealer Member*, an *Approved Person* of the *Dealer Member* or an *affiliate* of the *Dealer Member*.

(2) An *Approved Person* must not conduct any business under a *trade name* that is not owned by the *Dealer Member* or its *affiliate* without the *Dealer Member's* prior consent.

(3) A *Dealer Member* or *Approved Person* must not use a *trade name* that any other *Dealer Member* uses unless:

(i) the *Dealer Member*s are *related companies* or *affiliate* companies, or

(ii) the relationship with the other *Dealer Member* is that of *introducing broker* and *carrying broker*.

(4) A *Dealer Member* or *Approved Person* must not use a deceptive or misleading *trade name*.

2282. ~~IIROC~~Corporation notification

(1) A *Dealer Member* must notify ~~*IIROC*~~the *Corporation* before it:

(i) uses any *trade name* other than the *Dealer Member's* legal name, or

(ii) transfers a *trade name* to another *Dealer Member*.

(2) ~~*IIROC*~~The *Corporation* may prohibit a *Dealer Member* or *Approved Person* from using a *trade name* that is:

(i) contrary to sections 2281, 2282 or2283,

(ii) contrary to the public interest, or

(iii) otherwise objectionable.

2283. Displaying the full legal name

(1) A *Dealer Member* must include its full legal name on all contracts and materials used to communicate with the public, whether or not it uses a *trade name*.

(2) An *Approved Person* that uses a *trade name* different from that of the *Dealer Member* on materials used to communicate with the public must also include the *Dealer Member's* full legal name in size at least equal to that of the *Approved Persons' trade name*.

(3) Materials used to communicate with the public include, but are not limited to the following: letterhead, business cards, invoices, trade confirmations, monthly statements, websites, *research reports* and *advertisements*.

2284. Membership disclosure requirements of the ~~Canadian~~ Investor Protection Fund for Dealer Members

(1) A *Dealer Member* must disclose to its clients, in accordance with the ~~*CIPF*~~*IPF Disclosure Policy*, membership in the ~~*Canadian*~~ *Investor Protection Fund* and the coverage available for eligible accounts.

2285. Membership disclosure requirements of ~~IIROC~~the Corporation for Dealer Members

(1) A *Dealer Member* must disclose to its clients that it is regulated by ~~*IIROC*~~*the Corporation* in accordance with the requirements set out in the ~~*IIROC*~~*Corporation Membership Disclosure Policy*.

2286. –2299. Reserved.

RULE 2300 | PRINCIPAL AND AGENT RELATIONSHIPS

2301. Introduction

(1) Rule 2300 describes the requirements of relationships between *Dealer Members* and their *agents*.

2302. Principal and agent relationships

(1) An *individual* who conducts *securities related business* on behalf of a *Dealer Member* must be an *employee* (which includes an *agent*) of the *Dealer Member*.

(2) A *Dealer Member* must not allow a corporation or other non-*individual* entity to conduct *securities related business* on its behalf.

2303. Written agreement between the Dealer Member and ~~IIROC~~the Corporation

(1) Before engaging any *agent*s to conduct *securities related business*, a *Dealer Member* must enter into a written agreement with ~~*IIROC*~~the *Corporation*.

(2) The written agreement must contain terms describing the *Dealer Member's* responsibility:

(i) for the *agent's* conduct, including the *agent's* compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*, and

(ii) to clients for the *agent's* acts and omissions relating to the *Dealer Member's* business.

(3) ~~*IIROC*~~The *Corporation* must be satisfied with the form of the written agreement.

(4) The written agreement must be in a form similar to the following:

"Agreement between a Dealer Member and ~~IIROC~~the Corporation

1. Recitals

(i) As a Dealer Member of ~~the Investment Industry Regulatory Organization of Canada (IIROC)~~[Amalco] , the Dealer Member agrees it is subject to ~~IIROC~~Corporation requirements.

(ii) Section 2303 of the ~~IIROC~~Corporation Investment Dealer and Partially Consoldiated Rules, "Written agreement between the Dealer Member and ~~IIROC~~the Corporation", requires the Dealer Member to make this agreement with ~~IIROC~~the Corporation.

(iii) This agreement is in addition to and does not alter ~~IIROC~~Corporation requirements or any other agreement between the Dealer Member and ~~IIROC~~the Corporation.

2. Agreement with the Agent

(i) The Dealer Member must enter into a written agreement with each of its agents as required by section 2304 of the ~~IIROC~~Corporation Investment Dealer and Partially Consoldiated Rules, "Written agreement between the Dealer Member and its agents", and any successor rules relating to principal and agent relationships.

(ii) The agreement must require that the agent complies with all applicable laws and ~~IIROC~~Corporation requirements.

3. Supervision of the Agent

The Dealer Member must treat each of its agents as employees with respect to:

(i) administration of ~~IIROC~~Corporation requirements,

(ii) supervision of the agent under ~~IIROC~~Corporation requirements, and

(iii) ensuring its agents comply with all applicable laws and ~~IIROC~~Corporation requirements.

4. Written Disclosure of Respective Responsibilities to Clients

The Dealer Member or the agent must disclose to clients at the time of opening an account:

(i) the list of *securities related business* activities conducted by the agent for which the Dealer Member is responsible, and

(ii) that the Dealer Member is not responsible for any other business activity conducted by the agent.

5. Disclosure to Clients

The disclosure to clients must be made using the following language in the account application:

> "If your investment advisor is an agent of [the Dealer Member name], [Dealer Member name] is irrevocably liable to you for any acts and omissions of your investment advisor with regard to [Dealer Member name] business as if the investment advisor were an employee of [Dealer Member name]. By continuing to deal with our firm, you accept our offer of indemnity."

6. Disclosure by Agent

Where the disclosure described in 4(i) and (ii) is made by the agent, the Dealer Member must ensure that the agent has made the disclosure directly to the clients.

7. Regulatory Authority of ~~IIROC~~the Corporation

The Dealer Member acknowledges that ~~IIROC~~the Corporation has the authority to regulate and enforce the provisions set out in the Dealer Member and agent agreement.

8. Governing Laws

This agreement is governed by the laws of [applicable province] and the laws of Canada.

9. Continuing Benefit

The agreement is for the benefit of and binding upon the parties and their successors and assigns. The Dealer Member may not assign the agreement without ~~IIROC~~the Corporation's prior written consent.

DATED as of the _____day of _____, _____

[DEALER MEMBER]

_____

[NAME AND TITLE OF SIGNING INDIVIDUAL]

_____"

2304. Written agreement between the Dealer Member and its agents

(1) The *Dealer Member* and the *agent* who conducts *securities related business* must enter into a written agreement.

(2) The written agreement must not contain any terms inconsistent with ~~*IIROC*~~*Corporation requirements* or *securities laws*.

(3) ~~*IIROC*~~The *Corporation* must be satisfied with the form of the written agreement before the *Dealer Member* finalizes the agreement with the *agent*.

(4) The *Dealer Member* must certify to ~~*IIROC*~~the *Corporation* that the written agreement complies with Rule 2300 and any other applicable ~~*IIROC*~~*Corporation requirements*.

(5) ~~*IIROC*~~The *Corporation* may request that the *Dealer Member* obtain a legal opinion confirming subsection 2304(4).

(6) ~~*IIROC*~~The *Corporation* must be satisfied that the written agreement complies with *applicable laws* relating to tax matters.

(7) The written agreement must contain the following minimum terms:

(i) **Compliance with the applicable laws**

The *agent* and the *Dealer Member* confirm that this agreement does not violate *applicable laws*.

(ii) **Confirmation of supremacy of ~~*IIROC*~~Corporation requirements**

The *agent* and the *Dealer Member* confirm that:

(a) this agreement is made in compliance with ~~*IIROC*~~*Corporation requirements*,

(b) if there is an inconsistency between this agreement and any applicable ~~*IIROC*~~*Corporation requirements*, the ~~*IIROC*~~*Corporation requirements* will prevail,

(c) any inconsistent terms will be deemed severed and deleted,

(d) ~~*IIROC*~~The *Corporation* has the authority to regulate and enforce the provisions set out in this agreement, and

(e) this agreement will be interpreted and enforced to give full effect to any applicable ~~*IIROC*~~*Corporation requirements*.

(iii) **Compliance by the agent with applicable laws, securities laws, and ~~*IIROC*~~Corporation requirements**

(a) The *agent* warrants to the *Dealer Member* that it is appropriately registered or licensed, in good standing and in compliance with all *applicable laws*, *securities laws* and ~~*IIROC*~~*Corporation requirements*.

(b) The *agent* covenants to comply with all *applicable laws*, *securities laws* and ~~*IIROC*~~*Corporation requirements*.

(c) The *agent* agrees to be bound by and comply with the warranties and covenants above throughout the term of the agreement.

(iv) **Conduct of the agent's business**

(a) The *agent* agrees to conduct all business in the *Dealer Member's* name, subject to sections 2281 through 2283 relating to the use of trade names.

(b) The *agent* agrees to conduct all *securities related business* activities through the *Dealer Member*.

(v) **Supervision of the agent by the Dealer Member**

The *Dealer Member* agrees to be:

(a) responsible for the supervision of the *agent's* conduct to provide reasonable assurance of the agent's compliance with ~~*IIROC*~~*Corporation requirements* and the requirements of any other *securities regulatory authority* to which the *Dealer Member* is subject, and

(b) liable to clients (and other third parties) for the *agent's* conduct as if they were an *employee*.

(vi) **Written disclosure to clients**

If the *Dealer Member* and the *agent* have agreed that the *agent* will advise the clients directly:

(a) the list of *securities related business* activities conducted by the *agent* for which the *Dealer Member* is responsible, and

(b) that the *Dealer Member* is not responsible for any other business activity conducted by the *agent*,

the *Dealer Member* agrees to be responsible for ensuring that the *agent* has done so.

(vii) **Dealer Member assumes responsibility for clients**

(a) In the event that:

(I) ~~*IIROC*~~the *Corporation* or another *securities regulatory authority* has advised the *Dealer Member* that it has started an investigation relating to allegations of misconduct by the *agent*, or

(II) the *Dealer Member* has reasonable grounds to believe that the *agent* has contravened or may be contravening one or more ~~*IIROC*~~*Corporation requirements* or *securities laws*,

the *Dealer Member* may immediately and without notice to the *agent*, assume responsibility for the client to the exclusion of the *agent*.

(b) The *agent* may not have any dealings or communications with the client as long as the *Dealer Member* has assumed this responsibility.

(c) The *Dealer Member* may designate another qualified *person* to provide services to the client, and that *person* may receive any *remuneration* that would have been paid to the *agent*.

(viii) **Outside business activities**

(a) The *agent* agrees not to conduct any outside business activity without disclosing to and obtaining the written consent of the *Dealer Member*.

(b) If the *agent* is involved in an outside business activity, the *Dealer Member* agrees to monitor and enforce compliance with the terms of this agreement directly and not through another employer or principal of the *agent*.

(c) The *agent* agrees to ensure that the outside business activity will not interfere with the *Dealer Member* or ~~*IIROC*~~the *Corporation* monitoring and enforcing compliance by the *agent* with this agreement or ~~*IIROC*~~*Corporation requirements*.

(ix) **Access to premises**

The *agent* agrees to give the *Dealer Member* unrestricted access to the premises where the *agent* conducts *securities related business* on the *Dealer Member's* behalf.

(x) **Records**

The *agent* agrees that the books and *records* kept by the *agent* for the *Dealer Member's* business:

(a) will conform to ~~*IIROC*~~*Corporation requirements*,

(b) are the *Dealer Member*'s property,

(c) are available at all times for review by and delivery to the *Dealer Member*, and

(d) shall be delivered to the *Dealer Member* on termination of the agreement.

(xi) **Insurance**

The *Dealer Member* agrees to maintain financial institution bond and insurance policies that cover the *agent's* conduct relating to the *securities related business* activities they conduct for the *Dealer Member*.

(xii) **Assignment of agreement**

The *agent* acknowledges that the *Dealer Member* has the right to assign to ~~*IIROC*~~the *Corporation* any or all of the *Dealer Member's* rights to enforce the terms of this agreement that relate to ~~*IIROC*~~*Corporation requirements*.

2305. –2399. Reserved.

RULE 2400 | ACCEPTABLE BACK OFFICE ARRANGEMENTS

2401. Introduction

(1) In order to manage back office expenses, *Dealer Member*s may enter into arrangements that involve back office service sharing with another organization. Services shared may include any combination of: trade execution, trade clearing and settlement, trade financing, trade related cash and security custody and trade related books and *records*. In some cases, before an arrangement can commence, the parties must agree to specific ~~*IIROC*~~*Corporation* arrangement conditions, including obtaining ~~*IIROC*~~*Corporation* approval of the arrangement.

(2) Sections 2401 through 2480 sets out the specific ~~*IIROC*~~*Corporation requirements* for a number of arrangements that a *Dealer Member* may enter into and is organized as follows:

Part A – Requirements for acceptable arrangements between two *Dealer Member*s and between a mutual fund dealer and a *Dealer Member* including:

Part A.1 – General requirements
[sections 2403 through 2407]

Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements
[section 2410]

Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements
[section 2415]

Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements
[section 2420]

Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements
[section 2425]

Part A.6 – Corporation Rules that apply when the introducing broker is a mutual fund dealer
[section 2430]

Part B – Requirements for acceptable arrangement between a *Dealer Member* and a foreign *affiliate* dealer
[sections 2435 and 2436]

Part C – Permitted arrangements that are not considered to be introducing broker / carrying broker arrangements
[sections 2460 and 2461]

Part D – Prohibited arrangements
[section 2480]

2402. Definitions

(1) The following terms have the meaning set out below when used in sections 2402 through 2480:

"clearing arrangement"	An arrangement entered into between two dealers under which all of the following services are provided by one dealer ("clearing broker") to the other dealer for one or more lines of business: (i) trade execution, (ii) trade settlement, and (iii) client account bookkeeping. Trade financing or account financing, custody of client cash and custody of client security positions services must not be provided as part of this arrangement.
"introducing broker / carrying broker arrangement"	An arrangement entered into between two dealers under which all of the following services are provided by one dealer, the *carrying broker*, to the other dealer, the *introducing broker*, for one or more lines of business: (i) trade settlement, (ii) custody of client cash, (iii) custody of client security positions, and (iv) client account bookkeeping. Trade execution and trade financing or account financing services may or may not be provided as part of this arrangement.

PART A - ARRANGEMENTS BETWEEN TWO DEALER MEMBERS – GENERAL REQUIREMENTS

PART A.1 ~~–~~ - GENERAL REQUIREMENTS

2403. Arrangements that may be executed

(1) A *Dealer Member* or a mutual fund dealer that wants to become an *introducing broker* may enter into one of the following *introducing broker / carrying broker arrangements* with ~~another~~a *Dealer Member*:

(i) a Type 1 or 2 *introducing broker/carrying broker arrangement* for all of its *Dealer Member related activities* or mutual fund dealer related activities,

(ii) a Type 1 or 2 *introducing broker/carrying broker arrangement* for all of its *Dealer Member related activities* or mutual fund dealer related activities other than trading in *futures contracts* and *futures contract options*, or

(iii) a Type 3 or 4 *introducing broker/carrying broker arrangement* for one or more ~~of~~ its *Dealer Member related activities* or mutual fund dealer related activities business lines.

2404. Additional conditions that apply to an introducing broker under a Type 1 introducing broker/carrying broker arrangement

(1) A *Dealer Member* or a mutual fund dealer that is an *introducing broker* under a Type 1 *introducing broker/carrying broker arrangement* with ~~another~~a *Dealer Member*:

(i) must not enter into any additional *introducing broker / carrying broker arrangements* with another *Dealer Member* unless the arrangement is a Type 1 *introducing broker/carrying broker arrangement* or Type 2 *introducing broker/carrying broker arrangement* that

provides back office services exclusive to trading in *futures contracts* and *futures contract options*,

(ii) must not ~~continue to~~ self-clear any part of its *Dealer Member related activities* or mutual fund dealer related activities other than self-clearing trading in *futures contracts* and *futures contracts options*, and

(iii) must use its *carrying broker's* facilities for its principal trading, settlement, and securities custody.

2405. Additional conditions that apply to an introducing broker under a Type 2 introducing broker/carrying broker arrangement

(1) A *Dealer Member* or a mutual fund dealer that is an *introducing broker* under a Type 2 *introducing broker/carrying broker arrangement* with ~~another~~a *Dealer Member*:

(i) must not enter into any additional *introducing broker / carrying broker arrangements* with another *Dealer Member* unless the arrangement is a Type 1 *introducing broker/carrying broker arrangement* or Type 2 *introducing broker/carrying broker arrangement* that provides back office services exclusive to trading in *futures contracts* and *futures contract options*,

(ii) must not self-clear any part of its *Dealer Member related activities* or mutual fund dealer related activities other than self-clearing trading in *futures contracts* and *futures contracts options*, and

(iii) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

2406. Additional conditions that apply to an introducing broker under either a Type 3 introducing broker/carrying broker or a Type 4 introducing broker/carrying broker arrangement

(1) A *Dealer Member* or a mutual fund dealer that is an *introducing broker* under a Type 3 *introducing broker/carrying broker arrangement* or Type 4 *introducing broker/carrying broker arrangement* with ~~another~~a *Dealer Member*:

(i) must not enter into any Type 1 or Type 2 *introducing broker/carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* or mutual fund dealer related activities business lines,

(ii) may, where a business case can be made, enter into additional Type 3 *introducing broker/carrying broker arrangement* or Type 4 *introducing broker/carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* or mutual fund dealer related activities business lines,

(iii) may self-clear one or more of its remaining *Dealer Member related activities* or mutual fund dealer related activities business lines, and

(iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

2407. Requirement for an agreement

(1) A *Dealer Member* or a mutual fund dealer that is an *introducing broker* may enter into an arrangement permitted within sections 2403 through 2406 with ~~another~~a *Dealer Member* if both parties enter into a written *introducing broker* / *carrying broker* contract:

(i) in a form acceptable to ~~*IIROC*~~the *Corporation*,

(ii) that specifies the type of arrangement being entered into as a Type 1, Type 2, Type 3 or Type 4 *introducing broker/carrying broker arrangement*,

(iii) whose terms comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and

(iv) which is approved by ~~*IIROC*~~the *Corporation* in advance of it coming into effect.

2408. – 2409. Reserved.

PART A.2 ~~–~~ - SPECIFIC REQUIREMENTS FOR TYPE 1 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2410. Type 1 introducing broker/carrying broker arrangement – requirements

The parties to a Type 1 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $75,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2410(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *~~IIROC~~Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *~~IIROC~~Corporation requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4458, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account, the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*,

and

(b) obtain from the client ~~an *IIROC*~~a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).

(14) ~~Parties~~Margin lending and parties to margin and *guarantee* documents

(i) ~~The~~Where the introducing broker is:

(a) a mutual fund dealer, client purchase of securities and other investment products must be fully paid for and margin lending or any other form of credit extension, other than that permitted in section 3.2.1. of the Mutual Fund Dealer Rules, is not permitted.

(b) a *Dealer Member,* the *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) To ensure ongoing disclosure of the *introducing broker* / *carrying broker* relationship to clients, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of

this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with ~~*IIROC*~~*Corporation requirements*.

(17) Compliance with non-financial requirements

(i) The *introducing broker* and the *carrying broker* are jointly and severally responsible for compliance with all non-financial ~~*IIROC*~~*Corporation requirements* for each account the *introducing broker* introduces to the *carrying broker* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) With the *carrying broker's* advance approval, the *introducing broker* may accept a cheque in the *carrying broker's* name from a client whose account is carried by the *carrying broker* and:

(a) deliver it to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*, or

(b) arrange for the *carrying broker* to pick it up on the day it is received by the *introducing broker* or the next *business day*.

(iii) A client may send a cheque directly to the *carrying broker*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2411. – 2414. Reserved.

PART A.3 ~~–~~ SPECIFIC REQUIREMENTS FOR TYPE 2 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2415. Type 2 introducing broker/carrying broker arrangement – requirements

The parties to a Type 2 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2415(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2415(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2415(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with ~~*IIROC*~~*Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with ~~*IIROC*~~*Corporation requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4458, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*, and

(b) obtain from the client ~~an *IIROC*~~a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(13)(i)(a).

(14) ~~Parties~~Margin lending and parties to margin and *guarantee* documents

(i) ~~The~~Where the introducing broker is:

(a) a mutual fund dealer, client purchase of securities and other investment products must be fully paid for and margin lending or any other form of credit extension, other than that permitted in section 3.2.1. of the Mutual Fund Dealer Rules, is not permitted.

(b) a *Dealer Member,* the *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2415(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with ~~*IIROC*~~*Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial ~~*IIROC*~~*Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) The *introducing broker* may accept a cheque from a client in the name of the *introducing broker* or *carrying broker,* provided that the cheque is deposited into a bank account in the

carrying broker's name or forwarded on to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2416. – 2419. Reserved.

PART A.4 ~~–~~ SPECIFIC REQUIREMENTS FOR TYPE 3 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2420. Type 3 introducing broker/carrying arrangement – requirements

The parties to a Type 3 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2420(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and Monthly Financial Report all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and Monthly Financial Report one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2420(4), and

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2420(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with ~~*IIROC*~~*Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with ~~*IIROC*~~*Corporation requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457 and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) ~~Parties~~Margin lending and parties to margin and *guarantee* documents

(i) ~~The~~Where the introducing broker is:

(a) a mutual fund dealer, client purchase of securities and other investment products must be fully paid for and margin lending or any other form of credit extension, other than that permitted in section 3.2.1. of the Mutual Fund Dealer Rules, is not permitted.

(b) a *Dealer Member,* the *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outline the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2420(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with ~~*IIROC*~~*Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial ~~*IIROC*~~*Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2421. – 2424. Reserved.

PART A.5 ~~–~~ SPECIFIC REQUIREMENTS FOR TYPE 4 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2425. Type 4 introducing broker/carrying broker arrangement – requirements

The parties to a Type 4 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2425(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and Monthly Financial Report one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *introducing broker* must meet financing requirements for client accounts it introduces to the *carrying broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2425(4), and

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2425(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with ~~*IIROC*~~*Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *introducing broker* must segregate free credits for client accounts it introduces to the *carrying broker* in accordance with ~~*IIROC*~~*Corporation requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) ~~Parties~~Margin lending and parties to margin and *guarantee* documents

(i) ~~The~~Where the introducing broker is:

(a) a mutual fund dealer, client purchase of securities and other investment products must be fully paid for and margin lending or any other form of credit extension, other than that permitted in section 3.2.1. of the Mutual Fund Dealer Rules, is not permitted.

(b) a *Dealer Member:*

(I) the *introducing broker* is and the *carrying broker* or the *introducing broker* itself, may be party to a margin agreement and *guarantee* document~~.~~, and

(~~ii~~II) ~~If~~where a margin or *guarantee* agreement is only between the *introducing broker* and a client, then the *introducing broker* / *carrying broker* agreement must provide that the *carrying broker* may protect its interest in unpaid securities of the *introducing broker* when the *introducing broker* becomes insolvent, bankrupt, or ceases to be a *Dealer Member*.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents,

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2425(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with ~~*IIROC*~~*Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial ~~*IIROC*~~*Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2426. – 2429. Reserved.

PART A.6 - CORPORATION RULES THAT APPLY WHEN THE INTRODUCING BROKER IS A MUTUAL FUND DEALER

2430. Corporation Rules that apply

(1) Where the *Corporation* determines that a significant portion of a mutual fund dealer's business is introduced to one or more *carrying brokers* and the mutual fund dealer is in substance operating in the same manner as an investment dealer offering a limited scope of investment products, the mutual fund dealer will be subject to and must comply with the Corporation's Investment Dealer and Partially Consolidated Rules.

(2) Where the *Corporation* determines that an insignificant portion of a mutual fund dealer's business is introduced to one or more *carrying brokers* and the mutual fund dealer is in substance operating in the same manner as a mutual fund dealer offering a limited scope of investment products, the mutual fund dealer will be subject to and must comply with the Corporation's Mutual Fund Dealer Rules.

2431. – 2434. Reserved.

PART B - ARRANGEMENTS BETWEEN A DEALER MEMBER AND A FOREIGN AFFILIATE DEALER

2435. Arrangements that may be executed with a foreign affiliate

(1) A *Dealer Member* may carry the client accounts of its foreign *affiliate* dealer if:

(i) the *Dealer Member* enters into an *introducing broker* / *carrying broker* agreement type that is permissible pursuant to sections 2403 through 2425 ~~to be entered into between two *Dealer Members*~~,

(ii) the *Dealer Member* complies with the applicable conditions and requirements that apply to *introducing broker* / *carrying broker* agreement type set out in sections 2403 through 2425, including the requirement to enter into a written agreement,

(iii) the written agreement is:

(a) in a form acceptable to ~~IIROC~~the *Corporation*,

(b) specifies the type of arrangement being entered into is a Type 1, Type 2, Type 3 or Type 4 *introducing broker/carrying broker* arrangement,

(c) includes terms that comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and

(d) approved by ~~IIROC~~the *Corporation* in advance of it coming into effect,

and,

(iv) the *Dealer Member* complies with the additional conditions set out in section 2436.

2436. Additional conditions that apply to an introducing broker / carrying broker arrangement involving a foreign affiliate dealer

The parties to an *introducing broker / carrying broker arrangement* between a *Dealer Member* and its foreign *affiliate* dealer must comply with the following conditions and requirements:

(1) Annual disclosure requirement

(i) The foreign *affiliate*, at least annually, must provide written disclosure in a form satisfactory to ~~IIROC~~the *Corporation*, to each of its clients whose accounts are carried by the *Dealer Member* outlining:

(a) the relationship between the *Dealer Member* and its foreign *affiliate*,

(b) the relationship between the *Dealer Member* and the foreign *affiliate's* client, and

(c) any ~~*Canadian*~~ *Investor Protection Fund* coverage limitations on those client accounts.

(2) Foreign jurisdiction approval

(i) The *Dealer Member* must provide written approval of the arrangement between the *Dealer Member* and its foreign *affiliate* from the foreign *affiliate*'s regulatory authority.

(3) Responsibility for compliance

(i) The *Dealer Member's* foreign *affiliate* is not required to comply with ~~IIROC~~*Corporation requirements* solely because of the arrangement.

(4) Reporting balances

(i) When calculating *risk adjusted capital* the *Dealer Member* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report one balance owing to or from its foreign *affiliate* representing the accounts of the clients it carries on behalf of its foreign *affiliate*.

(5) Segregating securities

(i) The *Dealer Member* must *segregate* securities it holds for its foreign *affiliate*'s clients in accordance with ~~IIROC~~*Corporation requirements* relating to *segregation*.

(6) Insurance

(i) The *Dealer Member* must include all accounts introduced to it by its foreign *affiliate* when calculating client net equity for minimum Financial Institution Bond coverage under section 4457 and 4458.

2437. – 2459. Reserved.

PART C - PERMITTED ARRANGEMENTS THAT ARE NOT CONSIDERED TO BE INTRODUCING BROKER/CARRYING BROKER ARRANGEMENTS

2460. Certain arrangements executed with a Canadian financial institution affiliate

(1) A *Dealer Member's* arrangement under which employees of its *affiliate* handle securities clearing and settlement, maintain *records*, or perform operational functions is not considered an *introducing / carrying broker arrangement* for the purposes of sections 2401 through 2480 provided the custodial functions are handled on a segregated basis according to ~~*IIROC*~~*Corporation requirements* and the *affiliate* is:

(i) a *chartered bank*,

(ii) an insurance company governed by federal or provincial insurance legislation, or

(iii) a loan or trust company governed by federal or provincial loan and trust company legislation.

2461. Certain arrangements with other dealers

(1) A *Dealer Member's clearing arrangement* under which it acts as the clearing broker for another dealer is permitted and is not considered an *introducing broker* / *carrying broker arrangement* for the purposes of sections 2401 through 2480, provided that the arrangement also qualifies as a clearing arrangement under the rules of the relevant exchange or self-regulatory organization in the jurisdiction of the other dealer.

2462. – 2479. Reserved.

PART D - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS

2480. Prohibited introducing broker / carrying broker arrangements

(1) A *Dealer Member* must not enter into an *introducing broker* / *carrying broker arrangement* with any *person* except with:

(i) another *Dealer Member* or a mutual fund dealer, in accordance with the requirements in sections 2403 through ~~2425~~2430, or

(ii) a foreign *affiliate* dealer, in accordance with the requirements in sections 2435 and 2436.

2481. – 2499. Reserved.

RULE 2500 | DEALER MEMBER DIRECTORS AND EXECUTIVES, AND APPROVAL OF INDIVIDUALS

2501. Introduction

(1) Rule 2500 sets out requirements for a *Dealer Member's Directors* and *Executives* including, its *Chief Financial Officer, Chief Compliance Officer,* and *Ultimate Designated Person.*

(2) Rule 2500 is divided into the following parts:

Part A – Dealer Member Directors and Executives
[sections 2502 through 2507]

Part B – Approval of individuals
[sections 2550 through 2555]

PART A - DEALER MEMBER DIRECTORS AND EXECUTIVES

2502. General requirements for Directors

(1) No *individual* may become a member of the board of directors of a *Dealer Member* unless that *individual* has been approved as a *Director* by ~~*IIROC*~~the *Corporation*.

(2) At least 40% of the *Dealer Member's Directors* must:

(i) either:

(a) be *actively engaged in the business of the Dealer Member* and spend the majority of their time in the securities industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

(b) occupy a position equivalent to an *Executive* or a *Director* at a related or *affiliated* firm registered with a *securities regulatory authority*, an *affiliated* foreign securities dealer or advisor, or an *affiliated* Canadian financial institution,

(ii) satisfy the applicable proficiency requirements of clause 2602(3)(xxviii), and

(iii) have at least five years' experience in the financial services industry, or such lessor period as may be acceptable to ~~*IIROC*~~the *Corporation*.

(3) The remaining *Directors* who do not meet subsection 2502(2) must, if *actively engaged in the business of the Dealer Member* or its *related company*, meet the requirements of sub-clause 2502(2)(i)(b) and clause 2502(2)(ii).

2503. General requirements for Executives

(1) A *Dealer Member's Executives* must:

(i) be either:

(a) *actively engaged in the business of the Dealer Member* and spend the majority of their time in the securities industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

(b) occupy a position equivalent to an *Executive* or *Director* at a related or *affiliated* firm registered with a *securities regulatory authority*, *affiliated* foreign securities dealer or advisor, or an *affiliated* Canadian financial institution, and

(ii) satisfy the applicable proficiency requirements of clause 2602(3)(xxvii).

(2) At least 60% of the *Dealer Member's Executives* must have at least five years of experience in the financial services industry, or such lessor period as may be acceptable to ~~*IIROC*~~the *Corporation*.

2504. Exemption

(1) The ~~*applicable District Council*~~*Corporation* may grant an exemption from any requirement or part of a requirement in sections 2502 or 2503 if it is satisfied that it would not harm the interests of the *Dealer Member*, its clients, the public or ~~*IIROC*~~the *Corporation*. The exemption may be on any terms and conditions that the ~~*applicable District Council*~~*Corporation* believes are necessary.

2505. Chief Financial Officer

(1) A *Dealer Member* must designate a *Chief Financial Officer* who must:

(i) be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503, and

(ii) satisfy the applicable proficiency and experience requirements set out in clause 2602(3)(xxix).

(2) The *Chief Financial Officer* need not be *actively engaged in the business of the Dealer Member* on a full-time basis if appropriate for the *Dealer Member's* business.

(3) When a *Chief Financial Officer* ceases to be approved in the applicable category, the *Dealer Member* must either immediately:

(i) designate a qualified *individual* as *Chief Financial Officer,* or

(ii) with ~~*IIROC*~~the *Corporation's* prior approval, designate an *Executive* as acting *Chief Financial Officer*.

(4) When an acting *Chief Financial Officer* is designated:

(i) that *individual* must satisfy the applicable proficiency requirements of clause 2602(3)(xxix) and be designated as *Chief Financial Officer*, or

(ii) the *Dealer Member* must designate another qualified *individual* as *Chief Financial Officer*,

within 90 days of the previous *Chief Financial Officer's* cessation date.

(5) Any *Dealer Member* that fails to have a qualified *Chief Financial Officer* within 90 days of the cessation date of the previous *Chief Financial Officer*, or such other dates as ~~*IIROC*~~the *Corporation* may specify, will be liable for and pay to ~~*IIROC*~~the *Corporation* such fees as the *Board* may prescribe from time to time.

2506. Chief Compliance Officer

(1) A *Dealer Member* must designate a *Chief Compliance Officer* who must:

(i) be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503, and

(ii) satisfy the applicable proficiency and experience requirements set out in clause 2602(3)(xxx).

(2) The *Chief Compliance Officer* may be the *Ultimate Designated Person,* if approved by ~~*IIROC*~~the *Corporation*.

(3) A *Dealer Member* may designate additional *Chief Compliance Officers* to be responsible for separate business units of the *Dealer Member*, if the *Dealer Member* has obtained the prior approval of ~~*IIROC*~~the *Corporation* and any other applicable *securities regulatory authority*.

(4) When a *Chief Compliance Officer* ceases to be approved in the applicable category, the *Dealer Member* must either immediately:

(i) designate a qualified *individual* as *Chief Compliance Officer*, or

(ii) with ~~*IIROC*~~the *Corporation's* prior approval, designate an *Executive* as acting *Chief Compliance Officer*.

(5) When an acting *Chief Compliance Officer* is designated:

(i) the *individual* must satisfy the applicable proficiency requirements of clause 2602(3)(xxx) and be designated as *Chief Compliance Officer*, or

(ii) the *Dealer Member* must designate another qualified *individual* as *Chief Compliance Officer*,

within 90 days of the previous *Chief Compliance Officer's* cessation date.

(6) Any *Dealer Member* that fails to have a qualified *Chief Compliance Officer* within 90 days of the cessation date of the previous *Chief Compliance Officer*, or such other dates as ~~*IIROC*~~the *Corporation* may specify, will be liable for and pay to ~~*IIROC*~~the *Corporation* such fees as the *Board* may prescribe from time to time.

2507. Ultimate Designated Person

(1) A *Dealer Member* must designate an *Ultimate Designated Person* who must be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503.

(2) The *Ultimate Designated Person* must be:

(i) the chief executive officer of the *Dealer Member* or, if the *Dealer Member* does not have a chief executive officer, an *individual* acting in a capacity similar to a chief executive officer,

(ii) the sole proprietor of the *Dealer Member*, or

(iii) the *Executive* in charge of a division of the *Dealer Member*, if the activity that requires the *Dealer Member* to register occurs only within the division and the *Dealer Member* has significant other business activities.

(3) A *Dealer Member* may designate additional *Ultimate Designated Persons* to be responsible for separate business units, with the prior approval of ~~*IIROC*~~the *Corporation* and any other applicable *securities regulatory authority*.

(4) If an *individual* who is approved as a *Dealer Member's Ultimate Designated Person* ceases to meet any of the conditions listed in subsections 2507(1) and 2507(2), the *Dealer Member* must immediately designate another qualified *individual* to act as its *Ultimate Designated Person* or if unable to do so, promptly notify ~~*IIROC*~~the *Corporation* of its plan to designate another qualified *individual* as its *Ultimate Designated Person*.

2508. – 2549. Reserved.

PART B - APPROVAL OF INDIVIDUALS

2550. Introduction

(1) Part B of Rule 2500 sets out the approval criteria for *Approved Persons.*

(2) Part B of Rule 2500 requirements are complementary to section 9204, which discuss *individual* approval applications.

2551. Individual approval

(1) An *individual* is not permitted to act as an *Approved Person* and a *Dealer Member* is not permitted to allow an *individual* to act as an *Approved Person* unless:

(i) the *Dealer Member* is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *Dealer Member* reside or in which the *Dealer Member* carries on *securities related business*,

(ii) the *individual,* if required to do so under *securities laws,* is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *individual* reside or in which the *individual* carries on *securities related business*, and

(iii) the *individual* is approved by ~~*IIROC*~~*the Corporation* in the appropriate *Approved Person* category, before the *individual* begins working in that role.

(2) Only a *Dealer Member's* director, partner, *officer* or *employee* can be an *Approved Person*.

(3) A *Dealer Member* must ensure that each *Approved Person* at the *Dealer Member* complies with ~~*IIROC*~~*Corporation requirements* applicable to that *individual's Approved Person* category.

(4) All *Approved Persons* are subject to ~~*IIROC*~~*Corporation* jurisdiction and must comply with ~~*IIROC*~~*Corporation requirements*.

(5) A *Dealer Member* must ensure that, when dealing with the public, its *Approved Persons* use titles and designations that accurately indicate:

(i) the type of business that they have been approved by ~~*IIROC*~~*the Corporation* to conduct, and

(ii) the role that they carry out or has been approved by ~~*IIROC*~~*the Corporation* to carry out.

(6) If an *Approved Person* ceases to be approved by ~~*IIROC*~~*the Corporation*, the former *Approved Person* must immediately cease any activity requiring ~~*IIROC*~~*Corporation* approval.

(7) An *Approved Person* must not accept, nor allow an *associate* to accept, directly or indirectly, any pay, wages, salary, fees, gratuity, advantage, benefit or other consideration from any *person* other than the *Dealer Member*, its *related companies*, or *affiliates* for any *Dealer Member related activities* carried out by the *Approved Person.*

2552. Compliance with the proficiency requirements or other conditions

(1) Each ~~*of the Dealer Member's*~~ *Approved* ~~*Persons*~~*Person* must:

(i) meet the applicable proficiency requirements set out in Rule 2600 before ~~IIROC~~*Corporation* approval is granted, and

(ii) complete the applicable post-approval course requirements of subsection 2602(3) after receiving ~~IIROC~~*Corporation* approval.

(2) ~~IIROC~~The *Corporation* will automatically suspend an *Approved Person* if they do not complete all required post-approval courses in ~~they~~the *Approved Persons* category as set out in Rule 2600.

(3) ~~IIROC~~The *Corporation* will reinstate an *Approved Person* once they have passed the required post-approval courses and ~~IIROC~~the *Corporation* has been notified.

(4) A *Dealer Member* must file a report specified by ~~IIROC~~the *Corporation* on the conditions imposed on an *Approved Person* under Rule 8200 or Rule 9200 within 10 *business days* of the end of each month.

(5) If a *Dealer Member* does not file the report specified in subsection 2552(4) or files the report late, it must pay ~~IIROC~~the *Corporation* the applicable late filing fee.

2553. Approval of Registered Representatives, Investment Representatives, Portfolio Managers and Associate Portfolio Managers and their obligations

(1) A *Portfolio Manager* and *Associate Portfolio Manager* is also permitted to conduct activities carried on by a *Registered Representative* in accordance with ~~IIROC~~*Corporation requirements* applicable to *Registered Representatives.*

(2) A *Registered Representative*, *Investment Representative*, *Portfolio Manager* or *Associate Portfolio Manager* may not conduct on behalf of a *Dealer Member*, and a *Dealer Member* may not permit the *Approved Person* to conduct on its behalf, the type of business as set out in clause 2553(2)(iv) and deal with a type of customer as set out in clauses 2553(2)(i) and (ii), unless the *Dealer Member* complies with the following:

(i) The *Dealer Member* must notify ~~IIROC~~the *Corporation*, and seek ~~IIROC~~the *Corporation's* prior approval on whether the *Registered Representative*, *Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* will deal with either *retail clients* or *institutional clients*.

(ii) A *Registered Representative* dealing with:

(a) *retail clients,* may take orders from, or give advice to, all types of clients, or

(b) *institutional clients,* may take orders from, or give advice to, *institutional clients* only.

(iii) An *Investment Representative* dealing with:

(a) *retail clients,* may take orders from all types of clients, or

(b) *institutional clients,* may take orders from *institutional clients* only.

(iv) The *Dealer Member* must notify ~~IIROC~~the *Corporation* which of its *individual*s approved as a *Registered Representative, Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* will deal in or advise in:

(a) only mutual funds, government or government-guaranteed debt instruments, and deposit instruments issued by a federally regulated bank, trust company, credit

union or caisse populaire, except those for which all or part of the interest or return is indexed to the performance of another financial instrument or index,

(b) *options*,

(c) *futures contracts* and *futures contract options*, other than in any province where approval is required, and

(d) general securities business; including equities, fixed income and other investment products not listed above.

(3) An *individual* applying for approval as a *Registered Representative* or *Investment Representative* dealing with mutual fund business only must comply with the proficiency requirements in clauses 2602(3)(vi) ~~and (xii~~, 2602(3)(vii) or 2602(3)(xiii).

(4) A *Registered Representative* or *Investment Representative* approved to deal with mutual funds only must comply with the following:

(i) within 270 days of initial approval, successfully complete the Canadian Securities Course and the Conduct and Practices Handbook Course, and

(ii) complete the applicable training program required before approval for a *Registered Representative* in clause 2602(3)(i) or an *Investment Representative* in clause 2602(3)(~~vii~~viii) and the *Dealer Member* must notify *IIROC* that the restriction to mutual funds only has been removed.

(5) Clause 2553(4)(ii) does not apply to a *Registered Representative* or *Investment Representative* qualified to ~~conduct~~deal in mutual funds only who was approved prior to September 28, 2009 and registered in provinces or territories which allowed the *individual* to be restricted to mutual funds only, provided they remain in the same restricted category of approval in the same provinces/territories.

(6) Subsection 2553(4) does not apply to a *Registered Representative* qualified to deal in mutual funds only who is an *employee* of a firm that is registered as both an investment dealer and a mutual fund dealer.

(7) The approval of an *individual* qualified to conduct only mutual fund business is automatically suspended if the *individual* fails to satisfy the requirement in subsection 2553(4) until the *individual* has satisfied the requirements and notifies *IIROC*.

(~~7~~8) An *Associate Portfolio Manager* must not advise on securities unless, before giving the advice, the advice has been pre-approved by the *Portfolio Manager*.

2554. The Approved Person's activities outside of the Dealer Member

~~(1)~~ (1) An *Approved Person* may have, and continue in, a business or other activity outside of the *Dealer Member*, if the business or other activity:

~~(i)~~ (i) is not contrary to *securities laws* or ~~*IIROC*~~*Corporation requirements,* and

~~(ii)~~ (ii) does not bring the securities industry into disrepute.

~~(2)~~ (2) An *Approved Person* may have, and continue in, a business activity outside of the *Dealer Member*, if:

~~(i)~~ (i) the *Approved Person* informs the *Dealer Member* of the outside business activity,

~~(ii)~~ (ii) the *Approved Person* obtains the *Dealer Member's* prior approval to engage in the outside business activity,

~~(iii)~~ (iii) the *Dealer Member's* policies and procedures specifically address:

~~(a)~~ (a) continuous service to clients, and

~~(b)~~ (b) potential conflicts of interest,

and,

~~(iv)~~ (iv) the *Dealer Member* notifies ~~*IIROC*~~the *Corporation* of the outside business activity within the time period and manner required by ~~*IIROC*~~*Corporation requirements*.

(3) An *individual* must not act, and a *Dealer Member* must not permit an *individual* to act, as a *Registered Representative*, *Investment Representative*, *Portfolio Manager*, *Associate Portfolio Manager* or *Trader* in a manner that is contrary to section 4.1 of National Instrument 31-103, unless an exemption is granted by the applicable *securities regulatory authority* and such similar exemption request is also filed with and approved by ~~*IIROC*~~the *Corporation*.

2555. Approval of investors

(1) Any investor who owns or holds a *beneficial ownership* interest in a *significant equity interest* in the *Dealer Member* or special warrants or other securities that are convertible into a *significant equity interest* in the *Dealer Member* must:

(i) be approved by the ~~*applicable District Council*~~*Corporation*, and

(ii) if applicable, meet the proficiency requirements of subsections 2555(2) and 2555(3).

(2) A *Dealer Member's Director* who, directly or indirectly, owns or controls a voting interest of a *Dealer Member* of 10% or more must satisfy the proficiency requirements of clause 2602(3)(xxxi).

(3) Any *individual*, other than a *Dealer Member's Director,* who:

(i) is *actively engaged in the business of the Dealer Member*, and

(ii) directly or indirectly owns or controls a voting interest in a *Dealer Member* of 10% or more,

must satisfy the proficiency requirements of clause 2602(3)(xxxi) applicable to *approved investors*.

2556. – 2599. Reserved.

RULE 2600 | PROFICIENCY REQUIREMENTS AND EXEMPTIONS FROM PROFICIENCIES

2601. Introduction

(1) Rule 2600 sets out the minimum proficiency requirements for *individuals* requiring ~~*IIROC*~~*Corporation* approval. The requirements are designed to ensure that *Approved Persons* are qualified to perform their job functions competently in order to meet their regulatory obligations and that a *Dealer Member's* business is conducted with integrity.

(2) Rule 2600 is divided into the following parts:

Part A – Proficiency requirements
[~~section~~sections 2602 and 2603]

Part B – Exemptions from proficiency requirements
[sections 2625 through 2628]

Part C – Transition provisions
[sections 2630 and 2631]

PART A - PROFICIENCY REQUIREMENTS

2602. Proficiency requirements for Approved Persons and approved investors

(1) An *Approved Person* must not perform an activity that requires approval unless the *Approved Person* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each security the *Approved Person* recommends.

(2) The *Dealer Member* must ensure that an *individual* does not perform an activity that requires ~~*IIROC*~~*Corporation* approval unless the *individual* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each security the *individual* recommends.

(3) Each applicant in an *Approved Person* category or *approved investor* category must meet the proficiency requirements set out below for that category unless an exemption has been granted from the applicable proficiency requirements before ~~*IIROC*~~the *Corporation* will grant approval. Unless otherwise stated, the Canadian Securities Institute administers the courses and examinations noted below.

Registered Representatives and Investment Representatives
• *Registered Representative* dealing with *retail clients* (other than *Registered Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
• *Registered Representative* dealing with *institutional clients* (other than *Registered Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
• *Registered Representative* dealing in *options* with *retail clients*
• *Registered Representative* dealing in *options* with *institutional clients*
• *Registered Representative* dealing in *futures contracts* and *futures contract options* with *retail* or *institutional clients*

• *Registered Representative* dealing in mutual funds only who is an *employee* of a firm registered as an investment dealer and not registered as a mutual fund dealer
• *Registered Representative* dealing in mutual funds only who is an *employee* of a firm registered as both an investment dealer and a mutual fund dealer
• *Investment Representative* dealing with *retail clients* (other than *Investment Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
• *Investment Representative* dealing with *institutional clients* (other than *Investment Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
• *Investment Representative* dealing in *options* with *retail clients*
• *Investment Representative* dealing in *options* with *institutional clients*
• *Investment Representative* dealing in *futures contracts* or *futures contract options* with *retail* or *institutional clients*
• *Investment Representative* dealing in mutual funds only who is an *employee* of a firm registered as an investment dealer and not registered as a mutual fund dealer
Associate Portfolio Managers and Portfolio Managers
• *Associate Portfolio Managers* providing discretionary portfolio management for *managed accounts*
• *Portfolio Managers* providing discretionary portfolio management for *managed accounts*
Traders
• *Trader*
• *Trader* on the Montréal Exchange
Supervisors – Retail or Institutional
• *Supervisor* of *Registered Representatives* or *Investment Representatives* (other than supervising *options* or *futures contracts* and *futures contract options*)
• *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *options*
• *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *futures contracts* and *futures contract options*
Designated Supervisors
• *Supervisor* designated to be responsible for the opening of new accounts and supervision of account activity
• *Supervisor* designated to be responsible for the supervision of *discretionary accounts*
• *Supervisor* designated to be responsible for the supervision of *managed accounts*
• *Supervisor* designated to be responsible for the supervision of *options* accounts
• *Supervisor* designated to be responsible for the supervision of *futures contract /futures contract options accounts*
• *Supervisor* designated to be responsible for the pre-approval of *advertising*, *sales literature* and *correspondence*
• *Supervisor* designated to be responsible for the supervision of *research reports*
Executives and Directors
• *Executive* (including *Ultimate Designated Person*)
• *Director*

• *Chief Financial Officer*
• *Chief Compliance Officer*
Approved investors
• *approved investor*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
Registered Representatives and Investment Representatives			
(i) *Registered Representative* dealing with *retail clients* (other than *Registered Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course or, Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course and • 90-day training program after completion of the Canadian Securities Course or CFA Program Level I or any higher level. The *Dealer Member* must employ the applicant full time during this program. OR New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval	• Wealth Management Essentials Course within 30 months after approval date as a *Registered Representative*	• Six months of supervision and supervisory reporting from initial approval date as a *Registered Representative*
(ii) *Registered Representative* dealing with *institutional clients* (other than *Registered Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course or, Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course OR • New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval		

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
(iii) *Registered Representative* dealing in *options* with *retail clients*	• The proficiency requirements of a *Registered Representative* dealing with *retail clients* under clause 2602(3)(i), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(iv) *Registered Representative* dealing in *options* with *institutional clients*	• The proficiency requirements of a *Registered Representative* dealing with *institutional clients* under clause 2602(3) (ii), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years		

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(v) *Registered Representative* dealing with *retail clients* or *institutional clients* dealing in *futures contracts* or *futures contract options*	• Futures Licensing Course, and Conduct and Practices Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with the National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
(vi) *Registered Representative* dealing in mutual funds only who is an *employee* of a firm registered as an investment dealer and not registered as a mutual fund dealer	• Canadian Securities Course **or** Canadian Investment Funds Course administered by the Investment Funds Institute of Canada **or** Investment Funds in Canada Course	• Canadian Securities Course and Conduct and Practices Handbook Course within 270 days of initial approval, and • 90-day training program within 18 months of initial approval	• The *individual* must upgrade to *Registered Representative* within 18 months of initial approval
(vii) *Registered Representative* dealing in mutual funds only who is an *employee* of a firm registered as both an investment dealer and a mutual fund dealer	• Canadian Securities Course **or** Canadian Investment Funds Course administered by the Investment Funds Institute of Canada **or** Investment Funds in Canada Course		• Six months of supervision and supervisory reporting from initial approval date as *Registered Representative*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	AND • 90-day training program after completion of the Canadian Securities Course or Canadian Investment Funds Course or Investment Funds in Canada Course AND Conduct and Practices Handbook		
(~~vii~~viii) *Investment Representative* dealing with *retail clients* (other than *Investment Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course and 30-day training program after completing the Canadian Securities Course or Level I or any higher level of the CFA Program. The *Dealer Member* must employ the applicant full-time during this program OR • New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval		• Six months of supervision and supervisory reporting from initial approval date as an *Investment Representative*
(~~viii~~ix) *Investment Representative* dealing with *institutional clients* (other than *Investment Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course OR New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three		

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	years before requesting approval		
(~~ix~~x) *Investment Representative* dealing in *options* with *retail clients*	• The proficiency requirements of an *Investment Representative* dealing with *retail clients* under clause 2602(3)(vii), AND • Both the Derivatives Fundamentals Course *and* the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course, **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(~~x~~xi) *Investment Representative* dealing in *options* with *institutional clients*	• The proficiency requirements for an *Investment Representative* dealing with *institutional clients* under clause 2602(3)(viii), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years		

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(~~xi~~xii) *Investment Representative* dealing in *futures contracts* or *futures contract options* with *retail* or *institutional clients*	• Futures Licensing Course, and • Conduct and Practices Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) , if previously registered with the National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
(~~xii~~xiii) *Investment Representative* dealing in mutual funds only who is an *employee* of a firm registered as an investment dealer and not registered as a mutual fund dealer	• Canadian Securities Course **or** Canadian Investment Funds Course administered by the Investment Funds Institute of Canada **or** Investment Funds in Canada Course	• Canadian Securities Course and Conduct and Practices Handbook Course within 270 days of initial approval, and • 30-day training program within 18 months of initial approval	• The *individual* must upgrade to *Investment Representative* within 18 months of initial approval
Associate Portfolio Managers and Portfolio Managers			
(~~xiii~~xiv) *Associate Portfolio Managers* providing discretionary portfolio management for *managed accounts*	• Conduct and Practices Handbook Course, AND Canadian Investment Manager Designation **or**		• Two years of relevant investment management experience acceptable to ~~*IIROC*~~the *Corporation* within three years before requesting approval

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	Chartered Investment Manager Designation **or** CFA Level I or any higher level of the CFA Program administered by the CFA Institute AND If managing accounts in *options*: • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in *options* within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority AND If managing accounts in *futures contracts/futures contract options*, • Futures Licensing Course, AND Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) , if		

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	previously registered with the National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
(~~xiv~~xv) *Portfolio Managers* providing discretionary portfolio management for *managed accounts*	• Conduct and Practices Handbook Course, AND Canadian Investment Manager Designation **or** Chartered Investment Manager Designation **or** CFA Charter administered by the CFA Institute AND If managing accounts in *options*: • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority AND If managing accounts in *futures contracts/futures contract options*: • Futures Licensing Course AND		If Canadian Investment Manager Designation or Chartered Investment Manager Designation is completed: • at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval acceptable to ~~*IIROC*~~*the Corporation* **or** If CFA Charter is completed, at least one year of relevant investment management experience within the three years before requesting approval acceptable to ~~*IIROC*~~ *the Corporation*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	• Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) if previously registered with National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
Traders			
(~~xv~~xvi) *Trader*	• Trader Training Course, unless otherwise determined by the *Marketplace* on which the *Trader* will be trading		
(~~xvi~~xvii) *Trader* on the Montréal Exchange	• Proficiency requirements determined to be acceptable by the Montréal Exchange		
Supervisors – Retail or Institutional			
(~~xvii~~xviii) *Supervisor* of *Registered Representatives* or *Investment Representatives* (other than supervising *options* or *futures contracts* and *futures contract options*)	• Investment Dealer Supervisors Course AND • Canadian Securities Course **or** CFA Level I or any higher level of the CFA Program administered by the CFA Institute and • Conduct and Practices Handbook Course **or** New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* or an investment dealer within three years before requesting approval		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for a Mutual Fund Dealer, portfolio manager or entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
(~~xviii~~xix) *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *options*	• Options Supervisors Course, and Conduct and Practices Handbook Course AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course, **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in *options* within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xix~~xx) *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *futures contracts* and *futures contract options*	• Canadian Commodity Supervisors Exam and Futures Licensing Course and Conduct and Practices Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with National		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	Futures Association or an investment dealer and dealing in futures within three years before requesting approval		
Designated Supervisors			
(~~xx~~xxi) *Supervisor* designated to be responsible for the opening of new accounts and supervision of account activity	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xxi~~xxii) *Supervisor* designated to be responsible for the supervision of *discretionary accounts*	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xxii~~xxiii) *Supervisor* designated to be responsible for the	• Canadian Investment Manager Designation **or**		• If completed Canadian Investment Manager Designation or Chartered

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
supervision of *managed accounts*	Chartered Investment Manager Designation **or** CFA Charter administered by the CFA Institute AND • If supervising accounts in *options*, the applicable proficiency requirements to trade and supervise *options*, as specified under clause 2602(3)(~~xviii~~xix) AND • If supervising accounts in *futures contracts/futures contract options*, the applicable proficiencies to trade and supervise futures, as specified under clause 2602(3)(~~xix~~xx)		Investment Manager Designation: at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval **or** If completed CFA Charter: at least one year of relevant investment management experience within the three years before requesting approval
(~~xxiii~~xxiv) *Supervisor* designated to be responsible for the supervision of *options* accounts	• Options Supervisors Course, and Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xxiv~~xxv) *Supervisor* designated to be responsible for the supervision of *futures contract/futures contract options accounts*	• Canadian Commodity Supervisors Exam and Futures Licensing Course, AND • Derivatives Fundamentals Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant supervisory or compliance

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	or Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) if previously registered with the National Futures Association or an investment dealer and dealing in futures within three years before requesting approval		experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xxv~~xxvi) *Supervisor* designated to be responsible for the pre-approval of *advertising*, *sales literature* and *correspondence*	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the ~~*applicable District Council*~~*Corporation*
(~~xxvi~~xxvii) *Supervisor* designated to be responsible for the supervision of *research reports*	• Three levels of the CFA **or** CFA Charter administered by the CFA Institute **or** Other appropriate qualifications acceptable to the ~~*applicable District Council*~~*Corporation*		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
			experience acceptable to the ~~*applicable District Council*~~*Corporation*
Executives and Directors			
(~~xxvii~~xxviii) *Executive* (including *Ultimate Designated Person*)	• Partners, Directors and Senior Officers Course AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		
(~~xxviii~~xxix) *Director*	An industry *Director* must complete: • Partners, Directors and Senior Officers Course, AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category A non-industry *Director* that owns or controls a voting interest of 10% or more, directly or indirectly, must complete: • The Partners, Directors and Senior Officers Course		
(~~xxix~~xxx) *Chief Financial Officer*	• Partners, Directors and Senior Officers Course and Chief Financial Officers Qualifying Examination AND • If seeking approval in a trading or advising category, the applicable proficiency		• A financial accounting designation, finance related university degree or diploma or equivalent work experience as may be acceptable to ~~*IIROC*~~ *the Corporation*

Approved Persons category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	requirements in that category, AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		
(~~xxx~~xxxi) *Chief Compliance Officer*	• Partners, Directors and Senior Officers Course, and Chief Compliance Officers Qualifying Examination AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, AND If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		• Five years working for an investment dealer or registered advisor, with at least three years in a compliance or supervisory capacity **or** Three years providing professional services in the securities industry, with at least 12 months experience working at an investment dealer or registered advisor in a compliance or supervisory capacity
Approved investor			
(~~xxxi~~xxxii) *approved investor* (under subsections 2555(2) and 2555(3))	• Partners, Directors and Senior Officers Course		

2603. Permitted activities of mutual funds only Registered Representatives and Investment Representatives

(1) An applicant for approval, or an individual approved, as a *Registered Representative* dealing in mutual funds only, or an *Investment Representative* dealing in mutual funds only, will be also permitted to trade in exchange-traded funds that meet the definition of a mutual fund provided the individual:

(i) was permitted to trade in exchange-traded funds within the 90 days prior to these Rules coming into effect, or

(ii) complies with the relevant proficiency requirements in clauses 2602(3)(vi), 2602(3)(vii) and 2602(3)(xiii), and has successfully completed one of the following within the timeline prescribed in subsection 2628(1):

(a) Exchange Traded Funds for Mutual Fund Representatives, or

(b) Exchange Traded Funds administered by the Investment Funds Institute, or

(c) Exchange Traded Funds for Mutual Fund Representatives administered by the Smarten Up Institute.

(2) An applicant for approval, or an individual approved, as a *Registered Representative* dealing in mutual funds only, or an *Investment Representative* dealing in mutual funds only, will be also permitted to trade in exempt market products provided the individual:

(i) was permitted to trade in exempt market products within the 90 days prior to these Rules coming into effect, or

(ii) complies with the relevant proficiency requirements in clauses 2602(3)(vi), 2602(3)(vii) and 2602(3)(xiii), and has successfully completed one of the following within the timeline prescribed in subsection 2628(1):

(a) the Exempt Markets Products Exam, or

(b) the Canadian Securities Course, or

(c) Level 1 of the CFA or higher.

2604. – 2624. Reserved.

PART B - EXEMPTIONS FROM PROFICIENCY REQUIREMENTS

2625. Specific exemptions

(1) A *Chief Compliance Officer* seeking approval as a *Supervisor* of a producing *Supervisor* will not be required to complete the proficiencies required under 2602(3)(~~xvii~~xviii) for the purposes of being approved in this capacity, if the producing *Supervisor* is an *Approved Person* who is :

(~~a~~i) a *Supervisor* of a *Registered Representative* or *Investment Representative* and ~~(b)~~

(ii) actively engaged as a *Registered Representative* dealing with *retail clients*.

(2) ~~Unless otherwise specified, *individuals* approved as of the date the *IIROC* Rules come into effect,~~An applicant seeking approval as a *Supervisor* in relation to activities of individuals approved to deal in mutual funds only, including those in subsections 2603(1) and 2603(2), is exempt from the pre-approval course requirements in clauses 2602(3)(xviii) and 2602(3)(xxi) provided the individual:

(i) was designated by a member of the Mutual Fund Dealers Association of Canada as a branch manager, within 90 days prior to these Rules coming into effect, or

(ii) has successfully completed the following within the timelines prescribed in subsection 2628(1):

(a) instead of the Canadian Securities Course, either the:

(I) Canadian Investment Funds Course administered by the Investment Funds Institute of Canada, or

(II) Investment Funds in Canada Course.

(b) instead of the Investment Dealers Supervisors Course, either the:

(I) Mutual Fund Branch Managers' Examination Course administered by the Investment Funds Institute of Canada, or

(II) Branch Compliance Officers Course.

(3) With the exception of *individuals* who were required to transition to the Portfolio Manager and Associate Portfolio Manager approval categories , *individuals* approved prior to December 31, 2021 are exempt from any new proficiency requirements introduced as at December 31, 2021 in subsection 2602(3), provided the *Approved Person* continues in the same role.

2626. General and discretionary exemptions

(1) The ~~*applicable District Council* or its delegate~~*Corporation* may exempt any *person* or class of *persons* from the requirement to write or rewrite any required course, in whole or in part, if the applicant demonstrates adequate experience, and/or successful completion of courses or examinations that the ~~*applicable District Council* or its delegate~~*Corporation*, in its opinion, determines is an acceptable alternative to the required proficiency.

(2) This exemption may be subject to any terms and conditions the ~~*applicable District Council* or its delegate~~*Corporation* believes necessary.

(3) The applicant must pay any fees prescribed by the *Board* for this exemption.

2627. Exemptions from writing the required courses

(1) As set out in the table below, an applicant or *Approved Person* is exempt from writing a required course if the applicant meets the exemption criteria.

Required course	Course required for exemption	Exemption criteria
90-day Training Program	• none	Request approval within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a Canadian *securities regulatory authority*
30-day Training Program	• none	Request approval within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a Canadian *securities regulatory authority*

2628. Course validity and exemptions from rewriting courses

(1) Courses are valid for three years from the date of successful completion.

(2) An applicant for approval must rewrite a course if the applicant has not been approved in a category listed in subsection 2602(3) requiring the course within the last three years.

(3) The courses and examinations listed in Rule 2600 includes every prior or successor course or examination provided that it does not have a significantly reduced scope and content when compared to the course or examination listed in Rule 2600, as determined by ~~*IIROC*~~the *Corporation*.

(4) For the purposes of determining course validity, an *Approved Person* is not considered to have been approved during any period in which the *Approved Person's* approval was suspended or the *individual* was on leave or not conducting any activities requiring ~~*IIROC*~~*Corporation* approval on behalf of the *Dealer Member*.

(5) The validity periods do not apply to the Canadian Investment Manager Designation, the Chartered Investment Manager Designation and the CFA Charter provided the holders of these designations continue to have the right to use the designation and the designation has not been revoked or otherwise restricted.

(6) An *individual* is exempt from rewriting the courses as set out in the table below if the *individual* has met the current status criteria and exemption criteria.

Course	Individual's current status	Exemption criteria
Partners, Directors and Senior Officers Course	• has previously been approved as an *officer* (prior to September 28, 2009) and surrendered registration with the introduction of ~~*IIROC*~~the *Corporation* approval category of *Executive*	• applicant for approval who has maintained continuous employment with a *Dealer Member* in a senior capacity and remained in the corporate registry of a *Dealer Member* as an *officer* since September 28, 2009
Chief Financial Officers Qualifying Examination	• has never been approved as a *Chief Financial Officer*	• the applicant for approval has demonstrated to ~~*IIROC*~~the *Corporation's* satisfaction that the applicant has been working closely with and assisting the *Chief Financial Officer* since the completion of the Chief Financial Officers Qualifying Examination
Derivatives Fundamentals Course	• an applicant for approval or *Approved Person* who will be dealing with clients in *futures contracts*, or *futures contract*	• applicant seeking approval or filing a notice within three years of passing the Futures Licensing Course or the

Course	Individual's current status	Exemption criteria
	options or supervising *Approved Persons* who deal with such clients	Canadian Commodity Supervisors Exam
Derivatives Fundamentals Course	• an applicant for approval or an *Approved Person* dealing with clients, in *options*, or supervising *Approved Persons* who deal with such clients	• applicant seeking approval or filing a notice within three years of completing the Options Licensing Course or the Options Supervisors Course
Wealth Management Essentials Course	• an applicant for approval or *Approved Person* who will be dealing with *retail clients* in securities	• all three levels of the CFA Program or the CFA Charter administered by the CFA Institute which continues to be in good standing
90-day Training Program	• an applicant for approval or *Approved Person*	Applicants seeking approval or filing a notice within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a *securities regulatory authority*
30-day Training Program	• an applicant for approval or *Approved Person*	Applicants seeking approval or filing a notice within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*,

Course	Individual's current status	Exemption criteria
		or • as an advising representative by a *securities regulatory authority*

2629. ~~Transition of Registered Representatives (with a business type of portfolio management) into the new registration regime~~ Reserved

~~(1) An *Approved Person* who is approved as a *Registered Representative* with a business type of portfolio management shall transition to either:~~

~~(i) the *Portfolio Manager* approval category if the *Approved Person* is not under direct supervision and has provided discretionary management to *managed accounts* for at least two years, including at least one year managing on a discretionary basis more than $5 million in assets, or~~

~~(ii) the *Associate Portfolio Manager* approval category if the *Approved Person* does not satisfy requirements of clause 2629(1)(i).~~

~~(2) *Dealer Members* will have four months from the date the *IIROC* Rules come into effect to:~~

~~(i) review the approval category of each *Approved Person* who is approved as a *Registered Representative* with a business type of portfolio management and propose to *IIROC* whether the *Approved Person* should be approved as a *Portfolio Manager* or an *Associate Portfolio Manager*, and~~

~~(ii) file a Form 33-109F2 submission via the *National Registration Database* (defined in subsection 2802(1)) to remove both the *Registered Representative* approval category and the business type of portfolio management and add the applicable corresponding approval category of *Associate Portfolio Manager* or *Portfolio Manager*.~~

~~(3) Any *Dealer Member* that fails to comply with subsection 2629(1) within the time period specified in subsection 2629(2) may be liable for and pay to *IIROC* such fees as the *Board* may prescribe from time to time.~~

2630. Transition of Advising Representatives and Associate Advising Representatives into the Portfolio Manager and Associate Portfolio Manager approval category

(1) An *individual* registered as an advising representative or associate advising representative by a *securities regulatory authority* within the two weeks prior to the date of approval as a *Portfolio Manager* or *Associate Portfolio Manager* by *IIROC* has three months to complete the Conduct and Practices Handbook Course.

(2) *IIROC* will:

(i) automatically suspend the approval of the *Portfolio Manager* or *Associate Portfolio Manager* if he or she does not complete the Conduct and Practices Handbook Course within the timeframe set out in 2630(1), and

(ii) reinstate the *Portfolio Manager* or *Associate Portfolio Manager* once he or she has successfully completed the Conduct and Practices Handbook Course and has notified *IIROC*.

~~2631~~

PART C - TRANSITION PROVISIONS

2631. Transition of individuals dealing in mutual funds only

(1) For the purpose of complying with the requirements in clause 2602(3)(vi) or clause 2602(3)(vii) or clause 2602(3)(xiii),

(i) an individual approved as a *Registered Representative* dealing in mutual funds only, or an *Investment Representative* dealing in mutual funds only as of the date these Rules come into effect, will have 270 days to complete the Conduct and Practices Handbook Course (and, if required, the Canadian Securities Course) unless the individual is subject to a shorter period of time to complete this course (these courses) as of the date these Rules come into effect.

(ii) an individual approved as a dealing representative for a mutual fund dealer within 90 days prior to the date these Rules come into effect, will have 270 days from the date of approval as a *Registered Representative* dealing in mutual funds only, or an *Investment Representative* dealing in mutual funds only, to complete the Conduct and Practices Handbook Course.

2632. – 2699. Reserved.

RULE 2700 | CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2701. Introduction

~~(1) *IIROC*~~(1) The *Corporation* requires *Approved Persons* to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies.

(2) Rule 2700 is divided into the following parts:

Part A – The continuing education program and continuing education requirements [sections 2703 and 2704]

Part B – Continuing education program courses and administration [sections 2715 through 2717]

Part C – Participation in the continuing education program [sections 2725 and 2726]

Part D – Changes during a continuing education program cycle [section 2735]

Part E – Discretionary relief [section 2745]

Part F – Penalties applicable to the continuing education requirements for Approved Persons [section 2755]

2702. Definitions

(1) The following terms have the meaning set out below when used in sections 2703 through 2799:

"continuing education course"	A single, integrated course or series of relevant courses, seminars, programs or presentations that together meet the time and content requirements for continuing education set out in Rule 2700.
"continuing education participant"	An *Approved Person* approved in one or more of the categories set out in subsection 2704(1).
"continuing education program"	*IIROC's* continuing education program, consisting of compliance and professional development requirements.

PART A - THE CONTINUING EDUCATION PROGRAM AND CONTINUING EDUCATION REQUIREMENTS

2703. The continuing education program

(1) The *continuing education program* consists of two parts:

(i) a compliance course, which is training covering ethical issues, regulatory developments and rules governing investment dealer conduct, and

(ii) a professional development course, which is training that fosters learning and development in areas relevant to investment dealer business.

(2) The *continuing education program* operates in two year cycles. The first two year cycle commenced on January 1, 2018. The beginning and end of each *continuing education program* cycle is the same for all *continuing education participants*.

(3) A *Dealer Member* or external course provider may provide a *continuing education course*.

(4) A *Dealer Member* or external course provider may submit continuing education courses for accreditation through *IIROC's* accreditation process.

(5) A *continuing education participant* is exempt from the professional development course requirement if he or she:

(i) is approved in the category of *Registered Representative* or *Supervisor,* and

(ii) has been continuously approved in a trading capacity since January 1, 1990 or earlier by ~~*IIROC*~~the *Corporation*, the Toronto Stock Exchange, the Montreal Exchange, or the TSX Venture Exchange including any of its predecessors.

(6) A *continuing education participant* cannot receive continuing education credits for the same *continuing education course* unless the course has been updated to contain new course content, with the exception of ethics courses referred to in subsection 2715(3).

2704. Continuing education requirements

(1) In each *continuing education program* cycle, a *continuing education participant* must meet the continuing education requirements for the applicable *Approved Person* category, regardless of product type, as set out in the following table.

Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Registered Representative	*retail client*	Yes	Yes
Registered Representative	*institutional client*	Yes	No
Investment Representative	*retail client* or *institutional client*	Yes	No
Portfolio Manager	*retail client* or *institutional client*	Yes	Yes
Associate Portfolio Manager	*retail client* or *institutional client*	Yes	Yes
Trader	N/A	Yes	No
Supervisor of *Registered Representatives*	*retail client*	Yes	Yes
Supervisor of *Investment Representatives*	*retail client*	Yes	No
Supervisor of *Registered Representatives* or *Investment Representatives*	*institutional client*	Yes	No
Supervisor designated to be responsible for the supervision of *options* accounts	*retail client* or *institutional client*	Yes	No

Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Supervisor designated to be responsible for the supervision of *futures contract/futures contract options* accounts	*retail client* or *institutional client*	Yes	No
Supervisor designated to be responsible for the supervision of *managed accounts*	*retail client* or *institutional client*	Yes	No
Supervisor designated to be responsible for the opening of new accounts and supervision of account activity	*retail client* or *institutional client*	Yes	No
Supervisor designated to be responsible for the supervision of *discretionary accounts*	*retail client* or *institutional client*	Yes	No
Supervisor designated to be responsible for the pre-approval of *advertising, sales literature* and *correspondence*	N/A	Yes	No
Supervisor designated to be responsible for the supervision of *research reports*	N/A	Yes	No
Ultimate Designated Person	N/A	Yes	No
Chief Compliance Officer	N/A	Yes	No

(2) *Registered Representatives* dealing in mutual funds only who are an employee of a firm registered as both an investment dealer and a mutual fund dealer:

(i) are not subject to and do not need to comply with the *Registered Representative* continuing education requirements set out in subsection 2704(1), and

(ii) are subject to and must comply with the contuing education requirements for individuals registered as a dealing representative set out in Mutual Fund Dealer Rule 900.

(3) A *continuing education participant* registered in more than one *Approved Person* category must meet the continuing education requirements of the category with the most onerous continuing education requirements.

(~~3~~4) All *continuing education participants* must complete at least 10 hours of compliance courses in each *continuing education program* cycle.

(~~4~~5) A *continuing education participant* that is subject to professional development requirements must complete at least 20 hours of professional development courses in each *continuing education program* cycle.

2705. – 2714. Reserved.

PART B – CONTINUING EDUCATION PROGRAM COURSES AND ADMINISTRATION

2715. The compliance course

~~(1)~~ (1) A *continuing education participant*:

(i) cannot carry forward compliance course credits to satisfy continuing education requirements of a subsequent *continuing education program* cycle,

(ii) may receive continuing education credit for a compliance course with an examination, only if the *continuing education participant* successfully passes the examination, and

(iii) may receive continuing education credit of a maximum of five hours for compliance *continuing education courses* offered by a foreign securities dealer or foreign external course provider.

(2) A *Dealer Member* may give continuing education credit for *Dealer Member* compliance manual training where:

(i) the content of the compliance manual training satisfies clause 2703(1)(i), and

(ii) the compliance manual training is delivered by the *Dealer Member* through in-person seminars, or webinars that are accompanied by a method of evaluation.

(3) ~~*IIROC*~~The *Corporation* will publish a list of approved ethics courses that a *continuing education participant* can repeat and count towards fulfillment of the compliance course requirement in two *continuing education program* cycles.

2716. The professional development course

(1) A *continuing education participant* subject to the professional development requirement:

~~(i)~~ (i) may carry forward a maximum of 10 hours of a single professional development course completed in the last six months of the current *continuing education program* cycle to satisfy a portion of his or her professional development course requirement in the following *continuing education program* cycle,

~~(ii)~~ (ii) may receive continuing education credit for successful completion of the Wealth Management Essentials Course, where completed to satisfy the post-licensing requirement for *Registered Representatives* dealing with *retail clients*, in the *continuing education program* cycle in which the course is completed, and

~~(iii)~~ (iii) may receive continuing education credit for a professional development course with an examination, only if the *continuing education participant* successfully passes the examination.

2717. Dealer Member's administration of the continuing education program

(1) A *Dealer Member* must:

~~(i)~~ (i) keep evidence of a *continuing education participant's* completion of the *continuing education course*, which may be a certificate issued by the course provider, an attendance sheet, or bulk notice of completion,

~~(ii)~~ (ii) verify completion of a *continuing education course* and keep *continuing education program records,* including course related materials, for each *continuing education program* cycle for a minimum of seven years following the end of the *continuing education program* cycle,

~~(iii)~~ (iii) designate an *individual* responsible for supervising training and approving a *continuing education participant's* chosen *continuing education course*,

~~(iv)~~ (iv) ensure that a *continuing education participant's* chosen *continuing education course* satisfies the content criteria described in subsection 2703(1),

~~(v)~~ (v) where the *continuing education course* is delivered by the *Dealer Member,* evaluate a *continuing education participant's* knowledge and understanding of the course,

(vi) ensure that each *continuing education participant* meets the continuing education requirements during each *continuing education program* cycle, and

(vii) update the continuing education reporting system and notify ~~*IIROC*~~the *Corporation* within 10 *business days* after the end of the *continuing education program* cycle of all *continuing education participants* that have met their continuing education requirements in the *continuing education program* cycle.

(2) A *Dealer Member* may allow a *continuing education participant* to use the continuing education credits earned through courses or seminars completed at the *continuing education participant's* former sponsoring *Dealer Member*. A *Dealer Member* may accept a statement of completion issued by the *continuing education participant's* former sponsoring *Dealer Member*.

2718. – 2724. Reserved.

PART C – PARTICIPATION IN THE CONTINUING EDUCATION PROGRAM

2725. Participation of recently Approved Persons

(1) An *individual* enters the *continuing education program* cycle upon approval in an *Approved Person* category listed in subsection 2704(1).

(2) Notwithstanding subsection 2725(1), an *individual* that receives approval in an *Approved Person* category listed in subsection 2704(1) during the last six months of the current *continuing education program* cycle will become subject to the applicable continuing education requirements at the beginning of the next *continuing education program* cycle.

2726. Voluntary participation in the continuing education program

~~(1)~~ (1) Voluntary participation in the *continuing education program* will extend the validity period of the Canadian Securities Course. This extension is valid until the end of the sixth month of the next *continuing education program* cycle.

~~(2) *IIROC*~~(2) The *Corporation* will publish a list of courses that qualify for voluntary participation in the *continuing education program*.

~~(3)~~ (3) A former *Approved Person* may voluntarily participate in the *continuing education program* by completing a course or courses on the list referred to in subsection 2726(2).

~~(4)~~ (4) To extend the validity period, a former *Approved Person* must complete the course or courses on the list referred to in subsection 2726(2) in the *continuing education program* cycle in which the Canadian Securities Course expired.

(5) A former *Approved Person* may voluntarily participate in the *continuing education program* to extend the validity of the Canadian Securities Course for only one *continuing education program* cycle.

2727. – 2734. Reserved.

PART D - CHANGES DURING A CONTINUING EDUCATION PROGRAM CYCLE

2735. Changes to Approved Persons category during a continuing education program cycle

(1) A *continuing education participant* who changes his or her *Approved Person* category during a *continuing education program* cycle must complete the continuing education requirements applicable to the new *Approved Person* category in the same *continuing education program* cycle.

(2) Notwithstanding subsection 2735(1), a *continuing education participant* who changes his or her *Approved Person* category during the last six months of the current *continuing education program* cycle, becomes subject to the applicable continuing education requirements of the new *Approved Person* category at the beginning of the next *continuing education program* cycle.

(3) A *continuing education participant* may not change *Approved Person* categories to avoid continuing education requirements or penalties for non-completion of continuing education requirements. Any change to the *Approved Person* category during the last six months of the *continuing education program* cycle which results in less onerous continuing education requirements must be accompanied by an explanation from the sponsoring *Dealer Member* sufficient to satisfy ~~*IIROC*~~the *Corporation* that the category change is not an avoidance measure.

2736. – 2744. Reserved.

PART E – DISCRETIONARY RELIEF

2745. Discretionary Relief

(1) ~~*IIROC*~~The *Corporation* may extend the time a *continuing education participant* has to complete any *continuing education course* beyond the two year *continuing education program* cycle due to, but not limited to, an illness if:

(i) an *Executive* at the *continuing education participant's* sponsoring *Dealer Member*:

(a) approves the extension,

(b) notifies ~~*IIROC*~~the *Corporation* of the reason for the extension, and

(c) proposes the new date of completion of the required course,

and

(ii) the ~~*applicable District Council, or its delegate,*~~*Corporation* approves the request for an extension.

(2) In the case of an indefinite leave of absence, ~~*IIROC*~~the *Corporation* may exempt from the *continuing education program* a *continuing education participant* who is unable to complete his or

her continuing education requirements due to, but not limited to an illness, for more than one *continuing education program* cycle if:

(i) an *Executive* at the *continuing education participant's* sponsoring *Dealer Member*:

(a) approves the exemption,

(b) notifies ~~*IIROC*~~the *Corporation* of the reason for the exemption, and

(c) states that the leave is for an indefinite period,

and

(ii) the ~~*applicable District Council, or its delegate,*~~*Corporation* approves the request for an exemption.

(3) A *continuing education participant* who is granted an exemption under subsection 2745(2) and returns to the industry after an absence of:

(i) three years or less must have the ~~*applicable District Council , or its delegate,*~~*Corporation* determine the continuing education requirements before he or she resumes any activity that needs approval, or

(ii) more than three years must meet the applicable proficiency and registration requirements for his or her *Approved Person* category.

2746. – 2754. Reserved.

PART F - PENALTIES APPLICABLE TO THE CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2755. Penalties for late filing or not completing continuing education requirements in a continuing education program cycle

(1) On the last *business day* of the first month of a *continuing education program* cycle, ~~IIROC~~the Corporation will automatically suspend the approval of the *continuing education participant* if :

(i) a *continuing education participant* fails to complete the continuing education requirements for the previous *continuing education program* cycle, or

(ii) the sponsoring *Dealer Member* fails to update the continuing education reporting system and notify ~~*IIROC*~~the *Corporation* as required by clause 2717(1)(vii).

(2) A sponsoring *Dealer Member* that fails to comply with the requirements of clause 2717(1)(vii) will be liable for and pay ~~*IIROC*~~the *Corporation* such fees as the *Board* may prescribe from time to time.

(3) ~~*IIROC*~~The *Corporation* may reinstate the *continuing education participant's* approval after the sponsoring *Dealer Member* has notified ~~*IIROC*~~the *Corporation* in writing that the *continuing education participant* has completed the continuing education requirements.

(4) If a sponsoring *Dealer Member* pays a fine in error, ~~*IIROC*~~the *Corporation* will issue a refund provided the *Dealer Member* requests a refund within 120 days of the date the invoice is issued by ~~*IIROC*~~the *Corporation*.

2756. – 2799. Reserved.

RULE 2800 | THE NATIONAL REGISTRATION DATABASE

2801. Introduction

(1) A *Dealer Member* must participate in the *National Registration Database* (defined insubsection 2802(1).

(2) A *Dealer Member* must ensure timely and accurate filings on the *National Registration Database*.

2802. Definitions

(1) The following terms have the meaning set out below when used in sections 2803 through 2808:

"authorized firm representative"	For a *Dealer Member*, an *individual* with his or her own *National Registration Database* user identification and who is authorized by the *Dealer Member* to submit information in *National Registration Database format* for that *Dealer Member* and *individual* applicants with respect to whom the *Dealer Member* is the sponsoring *Dealer Member*.
"chief authorized firm representative"	For a *Dealer Member* filer, an *individual* who is an *authorized firm representative* and has accepted an appointment as a *chief authorized firm representative* by the *Dealer Member*.
"National Registration Database"	The online electronic database of registration and approval information regarding *Dealer Members*, their registered or *Approved Persons* and other firms and *individuals* registered under *securities laws*, and includes the computer system providing for the transmission, receipt, review and dissemination of that registration information by electronic means including, any successor database.
"National Registration Database account"	An account with a member of the Canadian Payments Association from which fees may be paid with respect to *National Registration Database* by electronic pre-authorized debit.
"National Registration Database Administrator"	The Alberta Securities Commission or a successor appointed by the *securities regulatory authorities* to operate the *National Registration Database*.
"National Registration Database format"	The electronic format for submitting information through the *National Registration Database website*.
"National Registration Database submission"	The information that is submitted under *securities laws*, securities directions or under Rule 2800, in the *National Registration Database format*, or the act of submitting information under *securities laws*, securities directions or under Rule 2800, in the *National Registration Database format,* as the context requires.
"National Registration Database website"	The website operated by the *National Registration Database Administrator* for the *National Registration Database submissions*.

2803. Dealer Member obligations for the National Registration Database

(1) A *Dealer Member* must, as prescribed by the applicable *securities laws*:

(i) enroll in the *National Registration Database* and pay the enrollment fee to *the securities regulatory authority* in the *Dealer Member's* principal jurisdiction,

(ii) enroll, with the *National Registration Database Administrator*, only one *chief authorized firm representative* responsible for the *Dealer Member's National Registration Database* filings,

(iii) notify the *National Registration Database Administrator*, of the appointment of a new *chief authorized firm representative* within seven days of the appointment,

(iv) notify the *National Registration Database Administrator*, of any change in name, phone number, fax number or email address of the *chief authorized firm representative* within seven days of the change,

(v) maintain only one *National Registration Database account*, and

(vi) submit through the *National Registration Database* any change of an *authorized firm representative* who is not the *chief authorized firm representative*, within seven days.

(2) The following list describes the submission requirements as prescribed by *securities laws*.

(i) A *Dealer Member* must make the following submissions using the *National Registration Database* on the *National Registration Database* form specified.

Type of submission	Form and timeline for submission
(a) an application for approval of an *individual* under any ~~*IIROC*~~*Corporation requirement*	Form 33-109F4 - Registration of Individuals and Review of Permitted Individuals
(b) a notification of any change in the type of business which an *Approved Person* will conduct	Form 33-109F2 - Change or Surrender of Individual Categories
(c) (I) an application for different or additional approval under ~~*IIROC*~~*Corporation requirements* for any *Approved Person*, (II) a surrender of existing approval	Form 33-109F2 - Change or Surrender of Individual Categories
(d) a report of a change of information regarding an *Approved Person* previously submitted in Form 33-109F4	Form 33-109F5 - Change of Registration Information , within the time periods and manner prescribed in National Instrument 33-109 and 33-109CP.
(e) an application for an exemption from a proficiency requirement of section 2602 for an *Approved Person* or applicant for approval	"Apply for an Exemption" submission on the *National Registration Database*
(f) a notification of a *Dealer Member* terminating (I) the employment of, or (II) principal or *agent* relationship with an *Approved Person*	Form 33-109F1 - Notice of Termination of Registered Individuals and Permitted Individuals. Items one through four of this form must be filed within 10 days of the cessation date. Item five must be filed within 30 days of cessation date unless the reason for termination under item four is that the *individual* is deceased.
(g) a notification of a *business location* opening or closing under section 2202	Form 33- 109F3 - Business locations other than head office ,within 10 days of the opening or closing
(h) a notification of change of address, type of location or supervision of any *business location*	Form 33-109F3 - Business locations other than head office, within 10 days of the change
(i) notification of reinstatement of *individual* approval.	Form 33-109F7 - Reinstatement of Registered Individuals and Permitted Individuals, within 90

Type of submission	Form and timeline for submission
	days of the cessation date from the previous sponsoring firm (see section 2808 for eligible criteria before making this filing).

(ii) Before filing a notice of change of business type under sub-clause 2803(2)(i)(b) above, ~~a~~an *Dealer Member* must notify ~~*IIROC*~~the *Corporation* through the *National Registration Database* that either:

(a) the *Approved Person* has completed the necessary proficiency requirements under section 2602(3) to undertake the type of business, or

(b) the *Approved Person* has been granted an exemption from the proficiency requirements under sections 2625 through 2628.

2804. Temporary hardship exemption

(1) A *Dealer Member* that cannot file a document in the *National Registration Database format* within the time required under subsection 2803(2) because of unexpected technical problems must submit the document outside of the *National Registration Database* within seven days of the required filing date.

(2) When submitting outside of the *National Registration Database* under subsection 2804(1), the *Dealer Member* must include the following text at the top of the first page of the submission in capital letters:

"IN ACCORDANCE WITH SECTION 2804 OF THE ~~IIROC~~CORPORATION INVESTMENT DEALER RULES AND PART 5 OF NATIONAL INSTRUMENT 31-102 NATIONAL REGISTRATION DATABASE, WE ARE SUBMITTING THIS [SPECIFY DOCUMENT] OUTSIDE OF NATIONAL REGISTRATION DATABASE UNDER A TEMPORARY HARDSHIP EXEMPTION."

(3) As soon as practicable, but within fourteen days after the unexpected technical problems have been fixed, a *Dealer Member* must resubmit using the *National Registration Database format* the information filed outside of the *National Registration Database* under subsection 2804(1).

2805. Due diligence and record keeping

(1) A *Dealer Member* must make reasonable efforts to ensure that the information submitted through the *National Registration Database* is true and complete.

(2) A *Dealer Member* must keep all documents used to meet its obligation under subsection 2805(1) for seven years after the *individual* ceases to be an *Approved Person* of the *Dealer Member*, or in any case when an *individual* who applied for approval was refused or withdrawn.

(3) A *Dealer Member* must record the *National Registration Database submission* number on any document kept under subsection 2805(2).

(4) For recently approved *individuals*, a *Dealer Member* must obtain, within 60 days of approval, a copy of the most recent Form 33-109F1 issued in respect of the *individual* by the former sponsoring *Dealer Member*.

2806. Fees

(1) A *Dealer Member* must pay, the annual *National Registration Database* system fee set by ~~*IIROC*~~the *Corporation*, to the *securities regulatory authority* in the local jurisdiction by electronic pre-authorized debit through the *National Registration Database*.

(2) The following fees must be submitted as prescribed by *securities laws* and ~~*IIROC*~~*Corporation requirements*:

(i) a *Dealer Member* making any *National Registration Database submission* under section 2803 must pay the prescribed fees for the submission, together with the *National Registration Database* system fee, to the *securities regulatory authority* in the *Dealer Member's* local jurisdiction for the use of the *National Registration Database*,

(ii) a *Dealer Member* must pay any prescribed fees for failure to file any notification within the time specified, and

(iii) a *Dealer Member* is required to pay all fees payable under section 2806 through its *National Registration Database account* by pre-authorized electronic debit.

(3) A *Dealer Member* making an application for a proficiency exemption, for an *Approved Person* or applicant for approval, will be liable for and pay ~~*IIROC*~~the *Corporation* an exemption request fee as prescribed from time to time by the *Board*.

2807. Termination

(1) A *Dealer Member* must notify ~~*IIROC*~~the *Corporation* of the termination of an *Approved Person,* within the time period and the manner prescribed in National Instrument 33-109.

(2) Approval of an *individual* will be suspended by ~~*IIROC*~~the *Corporation* if:

(i) the *individual* ceases to be an *Approved Person* with a *Dealer Member*, or

(ii) the approved agency relationship with a *Dealer Member* is terminated.

(3) A *Dealer Member* must, within 10 days of receiving a request from an *individual* that was its former *Approved Person*, provide to the *individual* a copy of the Form 33-109F1 that the *Dealer Member* submitted under subsection 2807(1) in respect of that *individual*.

(4) If a *Dealer Member* completed and submitted the information in item five of Form 33-109F1 in respect of an *individual* who made a request under subsection 2807(3) and that information was not included in the initial copy provided to the *individual*, the *Dealer Member* must provide to that *individual* a further copy of the completed Form 33-109F1, including the information in item five, within the latter of:

(i) 10 days after the request by the *individual* under subsection 2807(3), and

(ii) 10 days after the submission pursuant to subsection 4.2(2)(b) of National Instrument 33-109.

2808. Reinstatement of suspended Approved Persons

(1) The approval of an *Approved Person* suspended under subsection 2807(2) will be reinstated by ~~*IIROC*~~the *Corporation* on the date the *Dealer Member* submits a completed Form 33-109F7 if:

(i) Form 33-109F7 is submitted within 90 days of the cessation date,

(ii) there has been no change to the information previously submitted in respect of regulatory, criminal, civil and financial disclosure (items 13 [other than 13.3(a)]), 14, 15 and 16 of Form 33-109F4 respectively),

(iii) the *individual's* employment or agency relationship with the former sponsoring *Dealer Member* did not end because the *individual* resigned voluntarily, was asked by the *Dealer Member* to resign or was dismissed, following an allegation against the *individual* of any of the following:

(a) criminal activity,

(b) a breach of *securities laws*, or

(c) a breach of the rules of an *SRO*,

(iv) the *individual* is seeking reinstatement with a sponsoring firm in one or more of the same categories in which the *individual* was approved on the cessation date, and

(v) the new *Dealer Member* is registered in the same category (or subset thereof) of registration in which the *individual's* former *Dealer Member* was registered.

2809. – 2999. Reserved.

RULE 3100 | DEALING WITH CLIENTS

3101. Introduction

(1) Rule 3100 sets out a *Dealer Member's* obligations with respect to their dealings with their clients. The requirements are intended to underpin ~~*IIROC*~~the *Corporation's* objectives of maintaining investor confidence in securities markets and reinforcing a *Dealer Member's* responsibility to observe high standards of ethics and conduct in their dealings with clients.

(2) Rule 3100 is divided into the following parts:

Part A – Business Conduct
[section 3102]

Part B – Conflicts of interest
[sections 3110 through 3118]

Part C – Best execution of client orders
[sections 3119 through 3129]

Part D – Client identifiers
[section 3140]

PART A – BUSINESS CONDUCT

3102. Business conduct

(1) A *Dealer Member* must ensure that it handles its clients' business within the bounds of ethical conduct, consistent with just and equitable principles of trade, and in a manner that is not detrimental to the interests of the investing public and the securities industry.

(2) A *Dealer Member* must take reasonable steps to ensure that all orders or recommendations for any account are within the bounds of good business practice.

3103. – 3109. Reserved.

PART B – CONFLICTS OF INTEREST

3110. Responsibility to identify conflicts of interest

(1) A *Dealer Member* must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable:

~~(i)~~ (i) between the *Dealer Member* and the client, and

~~(ii)~~ (ii) between each *Approved Person* acting on the *Dealer Member*'s behalf and the client.

(2) An *Approved Person* must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the *Approved Person* and the client.

(3) If an *Approved Person* identifies a material conflict of interest under subsection 3110(2), the *Approved Person* must promptly report that conflict of interest to the *Dealer Member*.

3111. Approved Person responsibility to address conflicts of interest

(1) An *Approved Person* must address all material conflicts of interest between the client and the *Approved Person* in the best interest of the client.

(2) An *Approved Person* must avoid any material conflict of interest between the client and the *Approved Person* if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(3) An *Approved Person* must not engage in any trading or advising activity in connection with a material conflict of interest identified by the *Approved Person* under subsection 3110(2) unless,

(i) the conflict has been addressed in the best interest of the client, and

(ii) the *Dealer Member* has given the *Approved Person* its consent to proceed with the activity.

3112. Dealer Member responsibility to address conflicts of interest

(1) A *Dealer Member* must address all material conflicts of interest between the *Dealer Member* and the client, including each *Approved Person* acting on its behalf, in the best interest of the client.

(2) A *Dealer Member* must avoid any material conflict of interest between the client and the *Dealer Member*, including each *Approved Person* acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(3) A *Dealer Member* must adequately supervise how all material conflicts of interest between the client and the *Approved Person* are addressed by its *Approved Person*s pursuant to section 3111.

3113. Responsibility to disclose conflicts of interest

~~(1)~~ (1) A *Dealer Member* must disclose in writing all material conflicts of interest identified under subsections 3110(1) and 3110(2) to the client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.

(2) The information required to be disclosed to the client under subsection 3113(1) must:

(i) include a description of:

(a) the nature and extent of the conflict of interest,

(b) the potential impact on and risk that the conflict of interest could pose to the client, and

(c) how the conflict of interest has been, or will be, addressed,

(ii) be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language,

(iii) be disclosed:

(a) before opening an account for the client if the conflict has been identified at that time, or

(b) in a timely manner, upon identification of a conflict that must be disclosed under subsection 3113(1) that has not previously been disclosed to the client.

(3) For greater certainty, a *Dealer Member* and an *Approved Person* do not satisfy subsections 3111(1) or 3112(1) solely by providing disclosure to the client.

3114. Conflicts of interest policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address identifying, disclosing and avoiding or otherwise addressing material conflict of interest situations.

3115. Personal financial dealings

(1) An *employee* or *Approved Person* of a *Dealer Member* must not, directly or indirectly, engage in any personal financial dealings with clients.

(2) Personal financial dealings include, but are not limited to, the following types of dealings:

(i) Accepting any consideration

(a) Except as described in paragraphs 3115(2)(i)(a)(I) and 3115(2)(i)(a)(II) accepting any consideration, including *remuneration*, gratuity or benefit, from any *person* other than the *Dealer Member* for any activities conducted on behalf of a client.

(I) Consideration that is non-monetary, of minimal value, and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest or otherwise improperly influenced the *Dealer Member* or its *employees* would not be considered to be consideration for the purposes of sub-clause 3115(2)(i)(a).

(II) Compensation received from a client in exchange for services provided through an approved outside business activity would not be considered to be consideration for the purpose of sub-clause 3115(2)(i)(a).

(ii) Settlement agreements without the *Dealer Member's* approval

(a) Entering into a settlement agreement without the *Dealer Member's* prior written consent, or

(b) Paying for client account losses out of personal funds without the *Dealer Member's* prior written consent.

(iii) Borrowing from clients

(a) Borrowing money or receiving a *guarantee* in relation to borrowing money, securities or any other assets from a client, unless:

(I) the client is a financial institution whose business includes lending money to the public and the borrowing is in the normal course of the institution's business, or

(II) the client is a Related Person as defined by the Income Tax Act (Canada) and the transaction is addressed in accordance with the *Dealer Member's* policies and procedures,

and

(III) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement set out in paragraph 3115(2)(iii)(a)(II) is disclosed to and approved in writing by the *Dealer Member*, prior to the transaction.

(iv) Lending to clients

(a) Lending money, or providing a *guarantee* in relation to a loan of money, securities or any other assets to a client, unless:

(I) the client is a Related Person as defined by the Income Tax Act (Canada) and the transaction complies with the *Dealer Member's* policies and procedures, and

(II) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement set out in paragraph 3115(2)(iv)(a)(I) is disclosed to and approved in writing by the *Dealer Member*, prior to the transaction.

(v) Control or authority

(a) Acting as a Power of Attorney, trustee, executor, or otherwise having full or partial control or authority over the financial affairs of a client, unless:

(I) the client is a Related Person as defined by the Income Tax Act (Canada) and the existence of such control is addressed in accordance with the *Dealer Member's* policies and procedures, and

(II) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement in paragraph 3115(2)(v)(a)(I) is disclosed to and approved in writing by the *Dealer Member*, prior to entering into the arrangement.

(b) In the case of *discretionary accounts* and *managed accounts*, paragraph 3115(2)(v)(a)(I) does not apply to the extent that the control or authority is solely exercised consistent with the terms of the *discretionary account* agreement or the *managed account* agreement, and with ~~*IIROC*~~*Corporation requirements* for such accounts.

3116. Offering gratuity

(1) A *Dealer Member* or any *Approved Person, employee* or shareholder of a *Dealer Member* must not give, offer, or agree to give or offer, directly or indirectly, a gratuity, advantage, benefit or any other consideration, in relation to any business of the client with the *Dealer Member*, to any partner, director, officer, employee, agent or shareholder of a client or any *associate* of such *persons*.

(2) Subsection 3116(1) does not apply if the prior written consent of the client has been obtained.

3117. Mutual fund sales incentives

(1) For purposes of section 3117, the term "non-cash sales incentive" includes, without limitation, domestic or foreign trips, goods, services, gratuities, advantages, benefits or any other non-cash compensation.

(2) A *Dealer Member*, *related company*, partner, *employee* or *Approved Person* of the *Dealer Member* or *related company*, must not, directly or indirectly, accept or pay any non-cash sales incentive in connection with the sale or distribution of mutual fund products.

(3) The prohibition against non-cash mutual fund sales incentives in section 3117 does not apply to:

(i) non-cash sales incentives earned or awarded through a *Dealer Member's* internal incentive program for which eligibility is determined with respect to all services and products offered by the *Dealer Member*,

(ii) commissions or fees payable in cash and calculated with reference only to particular sales or volumes of sales of mutual fund,

(iii) service fees or trailing commissions,

(iv) cost of marketing materials, or

(v) normal and reasonable business promotion activities taking place where the recipient is employed or resides.

3118. Tied selling

(1) A *Dealer Member* must not require a client to purchase, use or invest in any product, service or security as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying, continuing to supply or selling a product, service or security.

(2) Subsection 3118(1) does not prohibit a *Dealer Member* from providing financial incentives or advantages such as relationship pricing or other beneficial selling arrangements, to clients.

PART C – BEST EXECUTION OF CLIENT ORDERS

3119. Definitions

(1) The following terms have the meaning set out below when used in sections 3119 through 3129:

"best execution"	Obtaining the most advantageous execution terms reasonably available under the circumstances.
"foreign exchange-traded security"	A security, other than a *listed security*, that is listed on a *foreign organized regulated market*.
"foreign organized regulated market"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"last sale price"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"Opening Order"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"over-the-counter securities"	*Debt securities*, contracts for difference and foreign exchange contracts, but does not include: (i) *listed securities*, (ii) primary market transactions in securities, and (iii) over-the-counter *derivatives* with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.
"Trading Rules"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.

3120. Best execution obligation

(1) A *Dealer Member*'s policies and procedures must specifically address achieving *best execution* for client orders.

3121. Best execution factors

(1) The policies and procedures for achieving *best execution* must address the following broad factors when executing all client orders:

(i) the price of the security,

(ii) the speed of execution of the client order,

(iii) the certainty of execution of the client order, and

(iv) the overall cost of the transaction, when costs are passed on to clients.

(2) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for *best execution* of client orders for *listed securities* and *foreign-exchange traded securities* must address the following specific factors:

(i) the considerations taken into account when determining appropriate routing strategies for client orders,

(ii) the considerations for fair pricing of *Opening Orders* when determining where to enter an *Opening Order*,

(iii) the considerations when not all *Marketplaces* are open and available for trading,

(iv) how order and trade information from all appropriate *Marketplaces*, including unprotected *Marketplaces* and *foreign organized regulated markets*, is taken into account,

(v) the factors related to executing client orders on unprotected *Marketplaces*, and

(vi) the factors related to sending client orders to a foreign intermediary for execution.

(3) The policies and procedures for *best execution* must address the factors used to achieve *best execution* when manually handling a client order for trades on a *Marketplace*, including the following "prevailing market conditions":

(i) the direction of the market for the security,

(ii) the depth of the posted market,

(iii) the *last sale price* and the prices and volumes of previous trades,

(iv) the size of the spread, and

(v) the liquidity of the security.

3122. Best execution process

(1) The policies and procedures for *best execution* must specifically address the process for achieving *best execution* that includes the following:

(i) for the execution of all client orders:

(a) requiring the *Dealer Member* to consider the instructions of a client, subject to its obligations under ~~*IIROC*~~*Corporation requirements* and *securities laws*, and

(b) describing any material conflicts of interest that may arise when sending client orders for handling or execution and how these conflicts are to be managed,

and,

(ii) for the execution of client orders for *listed securities* and *foreign exchange-traded securities* that trade on a *Marketplace*:

(a) describing the *Dealer Member's* order handling and routing practices for achieving *best execution*,

(b) taking into account order and trade information from all appropriate *Marketplaces*,

(c) the rationale for accessing or not accessing particular *Marketplaces*, and

(d) the circumstances under which a *Dealer Member* will move an order entered on one *Marketplace* to another *Marketplace*.

3123. Non-executing Dealer Member best execution policies and procedures

(1) A *Dealer Member* that engages another *Dealer Member* to provide execution services on its behalf may include in its policies and procedures for *best execution* a link to the executing *Dealer Member's best execution* disclosure to comply with its obligations under clause 3122(1)(ii) and sections 3126 and 3129, provided that the non-executing *Dealer Member's* policies and procedures for *best execution* specifically address the following:

(i) the non-executing *Dealer Member* must conduct an initial review of the best execution disclosure of the executing *Dealer Member* and a review when material changes are made to the disclosure, to provide reasonable assurance that the executing *Dealer Member*'s policies and procedures for *best execution* are complete and appropriate for its clients,

(ii) the non-executing *Dealer Member* must obtain an annual attestation from the executing *Dealer Member* that it has complied with and tested its policies and procedures on *best execution* in accordance with sections 3119 through 3129, and

(iii) the non-executing *Dealer Member* must follow-up with the executing *Dealer Member* if it identifies trade execution results that are inconsistent with the executing *Dealer Member's best execution* disclosure and document the results of its inquiry.

3124. Sending orders in bulk to foreign intermediaries

(1) A *Dealer Member's* policies and procedures for *best execution* must not include the practice of sending client orders in *listed securities* in bulk to a foreign intermediary for execution outside of Canada, without considering other liquidity sources, including liquidity sources within Canada.

3125. Fair pricing of over-the-counter securities

(1) A *Dealer Member* must not:

(i) purchase *over-the-counter securities* for its own account from a client or sell o*ver-the-counter securities* from its own account to a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:

(a) the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction,

(b) the expense involved in effecting the transaction,

(c) the fact that the *Dealer Member* is entitled to a profit, and

(d) the total dollar amount of the transaction, and

(ii) purchase or sell *over-the-counter securities* as agent for a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the following:

(a) the availability of the securities involved in the transaction,

(b) the expense of executing or filling the client order,

(c) the value of the services rendered by the *Dealer Member,* and

(d) the amount of any other compensation received or to be received by the *Dealer Member* in connection with the transaction.

3126. Review of best execution policies and procedures

(1) A *Dealer Member* must review its *best execution* policies and procedures at least annually, and whenever there is a material change to the trading environment or market structure that may impact a *Dealer Member's* ability to achieve *best execution* for its clients. The *Dealer Member* must consider whether more frequent reviews of its policies and procedures on *best execution* are necessary based on the size and scope its business.

(2) A *Dealer Member* must outline a process to review its policies and procedures on *best execution*, including a description of its governance structure, that specifies the following:

(i) who will conduct the review,

(ii) what information sources will be used,

(iii) the review procedures that will be employed,

(iv) a description of any specific events that will trigger a review in addition to annual reviews,

(v) how the *Dealer Member* evaluates whether its policies and procedures for *best execution* are effective in achieving *best execution*, and

(vi) who will receive reports of the results.

(3) A *Dealer Member* must retain *records* of its reviews of its policies and procedures on *best execution*, including any material decisions made and any changes to them, in accordance with the record retention requirements in section 3803.

(4) A *Dealer Member* must promptly correct any deficiencies identified in the course of its review of its policies and procedures on *best execution*.

3127. Training

(1) A *Dealer Member* must have reasonable assurance its *employees* involved in the execution of client orders know and understand how to apply the *Dealer Member's* policies and procedures for *best execution* that they must follow.

3128. Compliance with the Order Protection Rule

(1) Despite any instruction or consent of the client, *best execution* of a client order for *listed security* is subject to compliance with the Order Protection Rule under Part 6 of the *Trading Rules* by:

(i) the *Marketplace* on which the order is entered, or

(ii) the *Dealer Member*, if the *Dealer Member* has marked the order as a directed-action order in accordance with Universal Market Integrity Rule 6.2.

3129. Disclosure of best execution policies

(1) A *Dealer Member* must disclose to its clients in writing the following:

(i) a description of the *Dealer Member's* obligation under section 3120,

(ii) a description of the factors the *Dealer Member* considers for the purpose of achieving *best execution*,

(iii) a description of the *Dealer Member's* order handling and routing practices intended to achieve *best execution* of client orders for listed securities, that include the following:

(a) the identity of any *Marketplace* to which the *Dealer Member* might route the client orders for handling or execution,

(b) the identity of each type of intermediary (domestic or foreign) to which the *Dealer Member* might route the client orders for handling or execution,

(c) the circumstances in which the *Dealer Member* might route client orders to a *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above,

(d) the circumstances, if any, under which the *Dealer Member* will move a client order entered on one *Marketplace* to another *Marketplace*,

(e) the nature of any ownership by the *Dealer Member* or affiliated entity of the *Dealer Member* in, or arrangement with, any *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above,

(f) if any client orders may be routed to an intermediary identified in sub-clause 3129(1)(iii)(b) above, pursuant to an arrangement with that intermediary, and

(g) a statement that client orders will be subject to the order handling and routing practices of the intermediary identified in sub-clause 3129 (1)(iii)(b) above,

(iv) a statement that the *Dealer Member* has reviewed the client order handling and routing practices of the intermediary identified pursuant to sub-clause 3129(1)(iii)(b) and is satisfied that it provides reasonable assurance of achieving *best execution* of client orders,

(v) a statement as to:

(a) whether fees are paid by the *Dealer Member* or payments or other compensation is received by the *Dealer Member* for a client order routed, or a trade resulting from a client order routed, to a *Marketplac*e or intermediary identified pursuant to sub-clause 3129(1)(iii)(a) or (b) above,

(b) the circumstances under which the costs associated with the fees paid by the *Dealer Member* or the compensation received by the *Dealer Member* will be passed on to the client, and

(c) whether routing decisions are made based on fees paid by the *Dealer Member* or payments received by the *Dealer Member*,

and,

(vi) if providing market data as a service to clients, a description of any market data that is missing, including an explanation of the risks of trading with incomplete trading data.

(2) A *Dealer Member* must provide separate disclosure for each class or type of client if the factors and order handling and routing practices used for such clients materially differ.

(3) A *Dealer Member* must identify in the disclosure:

(i) the class or type of client to which the disclosure applies,

(ii) the class or type of securities to which the disclosure applies, and

(iii) the date of the most recent changes to the disclosure.

(4) A *Dealer Member* must make the disclosure:

(i) publicly available on the *Dealer Member's* website and clearly identify to clients where on the website the disclosure can be found, or

(ii) if the *Dealer Member* does not have a website, provide the disclosure in writing to the client upon account opening.

(5) A *Dealer Member* must:

(i) review the disclosure on a frequency that is reasonable in the circumstances, and at a minimum on an annual basis, and

(ii) promptly update the disclosure to reflect the *Dealer Member's* current practices.

(6) If a *Dealer Member* makes any change to the disclosure, the *Dealer Member* must:

(i) for the website disclosure, identify and maintain the change on its website for a period of six months after the change has been made, or

(ii) if the *Dealer Member* does not have a website, deliver the change to the client in writing no later than the 90th day after the change has been made.

3130. – 3139. Reserved.

PART D: CLIENT IDENTIFIERS

3140. Identifying clients of a Non-Executing Dealer Member

(1) Where a non-executing *Dealer Member* is not acting for an *order execution only account* and sends an order in a *listed security* to an executing *Dealer Member* for execution on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider, the non-executing *Dealer Member* must include:

(i) an identifier for the client for or on behalf of whom the order is entered, in the form of:

(a) a *Legal Entity Identifier* for an order for an account supervised under Part D of Rule 3900,

(b) an account number for all other client orders not included under sub-clause 3140(1)(i)(a);

(ii) the *Legal Entity Identifier* of the non-executing *Dealer Member* that is not a *Participant*.

(2) Where a non-executing *Dealer Member* is not acting for an *order execution only account* and groups together orders from more than one client or account type for execution on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider:

(i) sub-clause 3140(1)(i) does not apply, and

(ii) the non-executing *Dealer Member* must provide to the executing *Dealer Member* that the order is part of:

(a) a *bundled order*,

or

(b) a *multiple client order*.

(3) The non-executing *Dealer Member* that is not acting for an *order execution only account* and is not a *Participant* must ensure that the registration status of its *Legal Entity Identifier* has not lapsed.

3141. – 3199. Reserved.

RULE 3200 | KNOW-YOUR-CLIENT AND CLIENT ACCOUNTS

3201. Introduction

(1) Rule 3200 sets out *Dealer Members'* obligations when opening new accounts and maintaining existing accounts. Rule 3200 is divided into seven parts as follows:

Part A – Know-Your-Client and Client Identification Requirements:

sets out *Dealer Members*' obligation to know and identify each client and to learn and remain informed of the essential facts about each client, account and order accepted.

[sections 3202 through 3209]

Part B – Requirements for Client Accounts:

sets out the general account opening and updating procedures that, subject to certain exceptions specified within the requirements, are applicable to all accounts.

[sections 3210 through 3222]

Part C – Advisory Accounts:

sets out requirements that apply where the account is an *advisory account*.

[section 3230]

Part D – Order Execution Only Accounts:

sets out requirements that apply where the account is an *order execution only account*.

[sections 3240 and 3241]

Part E – Margin Accounts:

sets out requirements that apply where the account is a margin account.

[sections 3245 through 3247]

Part F – Additional Account Opening Requirements for Options, Futures Contract and Futures Contract Options Trading:

sets out additional account opening and updating procedures for *options*, *futures contracts* and *futures contract options* trading accounts.

[sections 3250 through 3260]

Part G – Discretionary Accounts and Managed Accounts:

sets out requirements that apply where the account is either a *discretionary account* or a *managed account*.

[sections 3270 through 3281]

(2) Rule 3200 applies to *Dealer Members* in addition to all other ~~*IIROC*~~*Corporation requirements*. No part of Rule 3200, unless otherwise specified, shall be interpreted to grant a *Dealer Member* an exemption for complying with other ~~*IIROC*~~*Corporation requirements*.

(3) The following terms have the meaning set out below when used in Part A – Know-Your-Client and Client Identification Requirements and Part B – Requirements for Client Accounts:

"financial exploitation"	means the use or control of, or deprivation of the use or control of, a financial asset of an *individual* by a *person* through undue influence, unlawful conduct

	or another wrongful act.
"trusted contact person"	means an *individual* identified by a client to a *Dealer Member* or *Approved Person* whom the *Dealer Member* or *Approved Person* may contact in accordance with the client's written consent.
"vulnerable client"	means a client who might have an illness, impairment, disability or aging-process limitation that places the client at risk of *financial exploitation*.

(4) The following terms have the meaning set out below when used in Part D – Order Execution Only Accounts:

"adviser"	means a *person* that is not an *individual* and is registered as an adviser in accordance with *securities laws*.
"foreign adviser equivalent"	means a *person* that is not an *individual* and is in the business of trading securities in a foreign jurisdiction in a manner analogous to an *adviser*.

PART A – KNOW-YOUR-CLIENT AND CLIENT IDENTIFICATION REQUIREMENTS

3202. Know Your-Client

(1) A *Dealer Member* must take reasonable steps to learn and remain informed of the essential facts relative to every order, account and client it accepts, and to:

(i) establish the identity of a client and, if the *Dealer Member* has any cause for concern, make reasonable inquiries as to the reputation of the client,

(ii) establish whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded,

(iii) ensure it has collected sufficient information regarding all of the following to enable it to meet its obligations under Rule 3400:

(a) the client's:

(I) personal circumstances,

(II) financial circumstances,

(III) investment needs and objectives,

(IV) investment knowledge,

(V) risk profile, and

(VI) investment time horizon, and

(iv) establish the creditworthiness of the client if the *Dealer Member* is financing the client's acquisition of a security.

(2) A *Dealer Member* must complete an account application for each new client in accordance with the requirements set out in Rule 3200.

(3) Within a reasonable time after receiving the information collected under subsection 3202(1), a *Dealer Member* must take reasonable steps to have a client confirm the accuracy of such information.

(4) Concurrently with taking the reasonable steps under clause 3202(1) a *Dealer Member* must take reasonable steps to obtain from the client the name and contact information of a *trusted contact person*, and the written consent of the client for the *Dealer Member* to contact the *trusted contact*

person to confirm or make inquiries about any of the following:

(i) the *Dealer Member's* concerns about possible *financial exploitation* of the client,

(ii) the *Dealer Member's* concerns about the client's mental capacity as it relates to the ability of the client to make decisions involving financial matters,

(iii) the name and contact information of a legal representative of the client, if any,

(iv) the client's contact information.

(5) Subsection 3202(4) does not apply to a *Dealer Member* in respect of a client that is not an *individual*.

3203. Identifying partnerships or trusts

(1) When opening an initial account for a partnership or trust, a *Dealer Member* must:

(i) in the case of a trust, obtain the names and addresses of all trustees and all known beneficiaries and settlors of the trust,

(ii) establish the existence of the partnership or trust and the nature of its business,

(iii) in accordance with the requirements set out in section 3206 establish the identity of each *individual* that exercises control over the affairs of the partnership or trust, and

(iv) not open a partnership or trust account unless it first obtains the information referred to in clause 3203(1)(iii) and determines whether the *individuals* described in clause 3203(1)(iii) and, in the case of a trust, any of the known beneficiaries of more than 10% of the trust are insiders of a reporting issuer or any other issuer whose securities are publicly traded.

3204. Identifying corporations

(1) When opening an initial account for a corporation, a *Dealer Member* must:

(i) obtain the names of all directors of the corporation within 30 days of opening the account,

(ii) establish the existence of the corporation and the nature of its business,

(iii) in accordance with the requirements set out in section 3206, establish the identity of any *individual* who is the *beneficial owner*, or exercises direct or indirect control or direction, of 25% or more of the voting rights attached to the outstanding voting securities of the corporation, and

(iv) not open an account unless it identifies any such *individual beneficial owners* required under clause 3204(1)(iii) and determines whether one or more of them are insiders of a reporting issuer or any other issuer whose securities are publicly traded.

3205. Prohibition on shell banks

(1) A *Dealer Member* must not open or maintain an account for a shell bank, which is defined as a bank that does not have a physical presence in any country.

(2) Subsection 3205(1) does not apply to a bank that is an *affiliate* of a bank, loan or trust company, credit union, or other depository institution with a physical presence in Canada or in a foreign country in which the institution is subject to supervision by a banking or other similar regulatory authority.

3206. Establishing identity

(1) For each *beneficial owner* or *individual* described in subsections 3203(1)(iii) and 3204(1)(iii), the *Dealer Member* must establish the identity of such *individual* by using such methods that allow the *Dealer Member* to form a reasonable belief it knows the identity of the *individual* and by taking reasonable measures to confirm the accuracy of the information obtained.

(2) The *Dealer Member* shall keep a record that sets out the information obtained and the measures to confirm the accuracy of that information.

(3) The identity of such *individual* in subsection 3206(1) must be established as soon as practicable but not more than 30 days after opening the account.

(4) If the identity of such *individual* referred to in subsection 3206(1) cannot be established within 30 days of opening an account, the *Dealer Member* must restrict the account solely to liquidating trades, transfers, paying out funds or delivering securities. These account restrictions must remain in place until the *Dealer Member* establishes the *individual's* identity.

3207. Identification exceptions

(1) Sections 3203, 3204 and 3206 do not apply to:

(i) An entity registered under *securities law*s to:

(a) engage in the business of trading or advising in securities, or

(b) act as an investment fund manager,

(ii) an investment fund that is regulated under *securities laws*,

(iii) a Canadian financial institution (as described in sub-section 3207(2) below),

(iv) an *affiliate* of a Canadian financial institution (as described in sub-section 3207(2) below), if that *affiliate* carries out activities similar to that Canadian financial institution,

(v) a Schedule III bank,

(vi) a pension fund that is regulated by or under an Act of Parliament or the legislature of a province,

(vii) an entity that is a Canadian public body, or a corporation that has minimum net assets of $75 million on its last audited balance sheet and whose shares are traded on a Canadian stock exchange or a stock exchange designated under section 262(1) of the Income Tax Act (Canada), and operates in a country that is a member of the Financial Action Task Force. For the purpose of clause 3207(1)(vii), the term "stock exchange" has the same interpretation as used in the Income Tax Act (Canada), or

(viii) an entity that is an *affiliate* of a public body or a corporation referred to in paragraph (vii) above and the financial statements of the entity are consolidated with the financial statements of that public body or corporation.

(2) A Canadian financial institution includes:

(i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act, or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each

case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada.

3208. Exemptions from Know-Your-Client

(1) Clause 3202(1)(iii) and subsection 3209(4) do not apply in respect to:

(i) an *order execution only account*,

(ii) a *direct electronic access account*,

(iii) an account maintained at a *Dealer Member* who is a *carrying broker* for that account or who only provides trade execution, clearing, settlement or custody services or a combination of these services to another *Dealer Member*, portfolio manager, exempt market dealer or their respective clients, for that account, or

(iv) an account held by an *institutional client*.

3209. Primary responsibility, delegation and obligation to keep current

(1) Compliance with the ~~*IIROC*~~*Corporation requirements* relating to know-your-client is primarily the responsibility of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* assigned to the client account.

(2) The responsibility in subsection 3209(1) must not be delegated to any other *person*.

(3) A *Dealer Member* must take reasonable steps to keep current the information required under Part A of Rule 3200, including updating the information within a reasonable time after the *Dealer Member* becomes aware of a significant change in the client's information required under section 3202.

(4) A *Dealer Member* must review the information collected under clause 3202(1)(iii) no less frequently than once every 36 months, except for a *managed account* and a *discretionary account* which must be reviewed no less frequently than once every 12 months.

PART B – REQUIREMENTS FOR CLIENT ACCOUNTS

3210. Definitions

~~(1)~~ (1) The following term has the meaning set out below when used in Rule 3200:

"Client account records"	Any information, disclosure statement or agreement the *Dealer Member* is required to provide to or obtain from the client in accordance with ~~*IIROC*~~ *Corporation requirements* or *applicable laws* including, but not limited to, the following: (i) documentation supporting the conclusion that the client's identity has been verified, (ii) documentation supporting the account appropriateness assessment, (iii) know-your-client information collected in accordance with ~~IIROC~~ *Corporation requirements*, and (iv) the client's account application.

3211. Account appropriateness

(1) Before a *Dealer Member* opens an account for a *person*, the *Dealer Member* must determine, on a reasonable basis and putting the *person*'s interest first, that:

(i) this action is appropriate for the *person*, and

(ii) the scope of products, services and account relationships which the *person* would have access to within the account are appropriate for the *person*.

(2) Clause 3211(1)(ii) does not apply in respect to:

(i) an *order execution only account*, or

(ii) a *direct electronic access account*.

(3) Subsection 3211(1) does not apply in respect to:

(i) an account maintained at a *Dealer Member* who is a *carrying broker* for that account or who only provides trade execution, clearing, settlement or custody services or a combination of these services to another *Dealer Member,* portfolio manager, exempt market dealer or their respective clients, for that account, or

(ii) an account held by a *Dealer Member*, *regulated entity*, exempt market dealer, portfolio manager, bank, trust company or insurance company.

3212. Account information

(1) For each account, the *Dealer Member* must obtain and maintain the applicable *client account records.*

(2) For each *institutional client*, the *Dealer Member* must verify that the client qualifies as an *institutional client.*

(3) The *Dealer Member* must record the account number on the account application.

3213. Account opening policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address:

(i) collecting and maintaining accurate, complete and up-to-date information about each client and updating that information where there are significant changes, and

(ii) ensuring the completion of *client account records* when opening new accounts.

(2) A *Dealer Member* must:

(i) have policies and procedures to specifically address that documents supporting *client account records* are received within a reasonable time after opening an account,

(ii) have a system for recording pending account documentation and following up where it is not received within a reasonable time,

(iii) take specific action to obtain required documents that have not been received within 25 *business days* of opening the account, unless a shorter period is prescribed,

(iv) have policies and procedures independent of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* for verifying significant changes to client information, and

(v) have a system in place to record the review and approval by the *designated Supervisor*.

3214. Opening new client accounts

(1) A *Dealer Member* may only assign an account number to a new account if the full and accurate name and address of the client who holds the account is known to the *Dealer Member*; the complete account application must be received no later than the following *business day*.

(2) The *designated Supervisor* must not approve a new account unless all *client account records* have been collected.

(3) A *designated Supervisor* must approve each new account no later than one *business day* after completing the initial trade for the account.

(4) A *Dealer Member* may use an alternative procedure to approve new accounts on an interim basis, provided the *designated Supervisor* provides final approval no later than one *business day* after the initial trade.

(5) If a *designated Supervisor* does not approve a new account after the initial trade, the *Dealer Member* must restrict the account to only liquidating trades, transfers out, paying out funds or delivering securities to the client. These account restrictions must remain in place until the *designated Supervisor* has provided final approval of the account.

(6) Before opening a new account for an *employee* of another *Dealer Member*, the *Dealer Member* must obtain written approval from the other *Dealer Member*, and must designate the account as *non-client account*.

3215. Updating client accounts

(1) The *Dealer Member's* policies and procedures must specifically address that any significant changes to client information are approved in the same manner that an account application is approved for a new account.

(2) If a client's *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* changes, the *Dealer Member's* procedures must require that:

(i) the new *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* verify the client information in the account application with the client as soon as practicable to ensure the information is correct, and

(ii) the new *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* and the *designated Supervisor* acknowledge, in writing, that the account application was reviewed and, if necessary, updated.

(3) Subject to subsection 3215(4), if the client's account application was approved within the past 36 months, the *Dealer Member* may use a copy of a client's current account application to record any changes to a client's information, but must have the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* and their *Supervisor* initial any changes.

(4) If the client's *managed account* or *discretionary account* application was approved within the past 12 months, the *Dealer Member* may use a copy of a client's current *managed account* or *discretionary account* application to record any changes to a client's information, but must have the *Portfolio Manager* or *Associate Portfolio Manager* and their *Supervisor* initial any changes.

(5) The *Dealer Member* must restrict the access of *Registered Representatives, Portfolio Managers* and *Associate Portfolio Managers* and other *persons* to its systems in such a manner so as to ensure that material client information cannot be changed without the required approval.

3216. Relationship Disclosure

(1) Objective of relationship disclosure requirements

This section establishes the minimum requirements for the provision of relationship disclosure information to *retail clients*. *Dealer Members* are not required to provide relationship disclosure to *institutional clients*.

Relationship disclosure information is a written communication from the *Dealer Member* to the client describing the products and services offered by the *Dealer Member*, the nature of the account and the manner in which the account will operate and the responsibilities of the *Dealer Member* to the client.

(2) Frequency of provision of relationship disclosure information

Relationship disclosure information must be provided to each *retail client*:

(i) at the time of opening an account or accounts, and

(ii) when there is a significant change to the relationship disclosure information previously provided to the client.

(3) Form of relationship disclosure information

(i) *Dealer Members* have the choice of providing customized relationship disclosure information to each client, or appropriate standardized relationship disclosure information to separate classes of clients.

(ii) Where standardized relationship disclosure information is provided to the client, the *Dealer Member* must ensure that the disclosure is appropriate for the client. The relationship disclosure information must accurately describe the account relationship the client has entered into with the *Dealer Member*.

(iii) Where a client has more than one account, combined relationship disclosure information may be provided to the client as long as the *Dealer Member* determines that the combined disclosure is appropriate for the client in light of the relevant circumstances, including the nature of the various accounts.

(4) Format of relationship disclosure information

(i) The format of the relationship disclosure information is not prescribed but must:

(a) be provided to the client in writing,

(b) be written in plain language that communicates the information to the client in a meaningful way, and

(c) include all the required content set out in subsection 3216(5), or, where specific information has otherwise been provided to the client by the *Dealer Member*, a general description and a reference to the other disclosure materials containing the required information.

(ii) *Dealer Members* may choose to provide the relationship disclosure information as a separate document or to integrate it with other account opening materials.

(5) Content of relationship disclosure information

(i) The relationship disclosure information must be entitled “Relationship Disclosure”.

(ii) Subject to clause 3216(5)(iii), the relationship disclosure information must contain the following:

(a) a general description of the types of products and services the *Dealer Member* will offer to the client including:

(I) a description of the restrictions on the client's ability to liquidate or resell a security, and

(II) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the *Dealer Member* provides,

(b) a general description of any limits on the products and services the *Dealer Member* will offer to the client including:

(I) whether the firm will primarily or exclusively provide proprietary products to the client, and

(II) whether there will be other limits on the availability of products or services,

(c) a description of the account relationship that states:

(I) whether the account opened is an *advisory account*, a *managed account* or an *order execution only account*,

(II) whether the client is responsible for making investment decisions and, if so, the manner in which the client will instruct the *Dealer Member* to effect transactions for the account, and

(III) whether recommendations or advice will be provided to the client and, if so, the responsibilities and obligations of the *Dealer Member* and its *employees* for any recommendations or advice provided to the client,

(d) a description of the process used by the *Dealer Member* to determine suitability, including:

(I) a description of the approach used by the *Dealer Member* to assess the client's personal and financial circumstances, investment needs and objectives, investment time horizon, risk profile and investment knowledge,

(II) a statement that the client will be provided with a copy of the "know-your-client" information that is obtained from the client and documented at time of account opening and when there are significant changes to the information,

(III) a statement that the *Dealer Member* will determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client's interest first, including when:

(A) securities are received into or delivered out of the client's account by way of deposit, withdrawal or transfer,

(B) there is a change in the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* responsible for the account,

(C) the *Dealer Member* becomes aware of a change in the *retail client*'s information collected in accordance with subsection 3202(1) that could result in the *retail client's* account not satisfying subsection 3402(1),

(D) the *Dealer Member* becomes aware of a change in a security in the *retail client's* account that could result in the account not satisfying subsection 3402(1), or

(E) the *Dealer Member* reviews the *retail client's* information in accordance with subsection 3209(4),

(IV) a statement indicating whether or not the suitability of the investments held in the account will be reviewed in the case of other triggering events not described in paragraph 3216(5)(ii)(d)(III) and, in particular, in the event of significant market fluctuations,

(e) a description of the client account reporting that the *Dealer Member* will provide, including:

(I) a statement indicating when trade confirmations and account statements will be sent to the client,

(II) a description of the *Dealer Member's* minimum obligations to provide performance information to the client and a statement indicating when account position cost and account activity information will be provided to the client, and

(III) a statement indicating whether or not the provision of account percentage return information will be an option available to the client as part of the account service offering,

(f) a statement indicating that any *Dealer Member* and *Approved Person* existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, which are not avoided, will be addressed in the best interest of the client and will be disclosed, where required, to the client in a timely manner, upon identification of the conflict,

(g) a general description of any benefits received, or expected to be received, by the *Dealer Member* or the *Approved Person*, from a *person* or company other than the *Dealer Member's* client, in connection with the client's purchase or ownership of a security through the *Dealer Member,*

(h) a description of all account service fees and charges the client will or may incur relating to the general operation of the account,

(i) a description of all charges the client will or may incur in making, disposing and holding investments by type of investment product,

(j) a general explanation of the potential impact on a client's investment returns from each of the fees and charges described in 3216(5)(ii)(a)(II), and 3216(5)(ii)(h) and (i), including the effect of compounding over time,

(k) a listing of the account documents required to be provided to the client with respect to the account,

(l) a description of the *Dealer Member's* complaint handling procedures and a statement that the client will be provided with a copy of ~~an *IIROC*~~*a Corporation* approved complaint handling process brochure at time of account opening,

(m) a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be made available to the client by the *Dealer Member*,

(n) a description of the circumstances under which a *Dealer Member* might disclose information about the client or the client's account to a *trusted contact person* referred to in subsection 3202(4), and

(o) a general explanation of the circumstances under which a *Dealer Member* or *Approved Person* may place a *temporary hold* under section 3222 and a description of the notice that will be given to the client if a *temporary hold* is placed or continued under that section.

(iii) For *order execution only accounts*, the *Dealer Member* does not have to provide the relationship disclosure information required under sub-clause 3216(5)(ii)(d), provided that disclosure is made in compliance with the requirements in section 3241.

(6) Review of relationship disclosure materials

(i) The relationship disclosure information provided to the client must be approved by a partner, *Director*, *officer* or *designated Supervisor*. This approval must occur regardless of the form the relationship disclosure information takes. If the document is a standardized document, the *designated Supervisor* must ensure that the correct document is used in each client circumstance. If the relationship disclosure information is a customized for each client, the *designated Supervisor* must approve each document.

3217. Leverage risk disclosure statement

(1) When opening a new account for a *retail client*, prior to making an initial recommendation to a *retail client* to purchase securities using borrowed money, or when first becoming aware of a *retail client's* intention to purchase securities using borrowed money, a *Dealer Member* must:

(i) provide each *retail client* with a copy of the leverage risk disclosure statement, and

(ii) obtain the *retail client's* positive acknowledgement that they are in receipt of the disclosure statement referred to in clause 3217(1)(i).

(2) A *Dealer Member* is not required to comply with subsection 3217(1) where it has provided the *retail client* with a leverage risk disclosure statement in accordance with subsection 3217(1) within the last six months.

(3) A leverage risk disclosure statement must be in substantially the following words:

"Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines."

3218. Pre-trade disclosure of charges

(1) Before a *Dealer Member* accepts an instruction from a *retail client* to purchase or sell a security in an account other than a *managed account*, the *Dealer Member* must disclose to the client:

(i) the charges the client will be required to pay, directly or indirectly, in respect of the purchase or sale, or a reasonable estimate if the actual amount of the charges is not known to the firm at the time of disclosure,

(ii) in the case of a purchase to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply,

(iii) whether the firm will receive trailing commissions in respect of the security, and

(iv) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security.

(2) Subsection 3218(1) does not apply to a *Dealer Member* in respect of an instruction involving:

(i) a client for whom the *Dealer Member* purchases or sells securities only as directed by a registered adviser acting for the client.

3219. Client mail

(1) A *Dealer Member's* hold-mail account procedures for *retail clients* must, at a minimum, include the following provisions:

(i) a requirement that the *Dealer Member* obtain written authorization from the client to "hold mail",

(ii) a requirement that limits the length of time that a "hold mail" order may remain in force for no longer than six months, in any 12 month period, and

(iii) a rule requiring the control and regular review of "hold mail" accounts by a *Supervisor.*

(2) Notwithstanding clause 3219(1)(ii), a longer period may be used if:

(i) it is permitted by the *Dealer Member's* policies and procedures,

(ii) the *Dealer Member* has policies and procedures that specifically address the close supervision of such accounts, and

(iii) the appropriate *Supervisor* pre-approves the extended period.

(3) A *Dealer Member's* returned mail procedures for *retail clients* must at a minimum include the following provisions:

(i) a rule requiring the control and investigation by a *person* independent of the sales function, but may be located within a *business location,* and

(ii) a rule requiring that a record of all investigations and their results be maintained.

3220. Record keeping

(1) A *Dealer Member* must maintain *records* for each account that includes:

(i) *client account records*,

(ii) the name and address of the account guarantor, if applicable, and

(iii) a signed trading authorization from the account holder authorizing a *person*, other than the account holder, to give trading instructions for the account, if applicable.

(2) The *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* responsible for an account must retain a current copy of each account application. This requirement can be

satisfied by a *Dealer Member* maintaining the information in an electronic application accessible to the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager*.

(3) A *Dealer Member* must maintain all *client account records* in accordance with the record retention requirements in section 3803.

(4) A *Dealer Member* must maintain a record of *persons* with trading authorization over one or more client accounts and must ensure that such record is sufficient to allow the *Dealer Member* to identify any *persons* with trading authorization for multiple clients or client accounts.

3221. Prohibition against discretionary trading

(1) For the purposes of Rule 3200, a *Dealer Member* must ensure that *individuals* trading on its behalf do not engage in any discretionary trading, including time and price discretion, unless discretion is exercised in a *discretionary account* or *managed account* in accordance with the requirements set out in Part G of Rule 3200.

(2) Subsection 3221(1) does not apply to time and price discretion exercised in fulfilling the *Dealer Member*'s *best execution* obligation relating to a client order for a specific amount or a specific security.

3222. Conditions for temporary holds

(1) A *Dealer Member* or an *Approved Person* must not place a *temporary hold* on the basis of *financial exploitation* of a *vulnerable client*, unless the *Dealer Member* reasonably believes all of the following:

(i) the client is a *vulnerable client*,

(ii) *financial exploitation* of the client has occurred, is occurring, has been attempted or will be attempted.

(2) A *Dealer Member* or an *Approved Person* must not place a *temporary hold* on the basis of a client's lack of mental capacity unless the *Dealer Member* reasonably believes that the client does not have the mental capacity to make decisions involving financial matters.

(3) If a *Dealer Member* or an *Approved Person* places a temporary hold referred to in subsection 3222(1) or subsection 3222(2), the Dealer Member must do all of the following:

(i) document the facts and reasons that caused the *Dealer Member* or *Approved Person* to place, and if applicable, to continue the *temporary hold*,

(ii) provide notice of the *temporary hold* and the reasons for the *temporary hold* to the client as soon as possible after placing the *temporary hold*,

(iii) review the relevant facts as soon as possible after placing the *temporary hold*, and on a reasonably frequent basis, to determine if continuing the hold is appropriate,

(iv) within 30 days of placing the *temporary hold* and, until the hold is revoked, within every subsequent 30-day period, do either of the following:

(a) revoke the *temporary hold*,

(b) provide the client with notice of the *Dealer Member's* decision to continue the hold and the reasons for that decision.

3223. – 3229. Reserved.

PART C – ADVISORY ACCOUNTS

3230. Rules applicable to advisory accounts

~~(1)~~ (1) For the purposes of Rule 3200, a *Dealer Member* that opens an *advisory account* for a *retail client* must comply with the requirements in Parts A through C of Rule 3200, and if applicable, Parts E through G of Rule 3200.

~~(2)~~ (2) For the purposes of Rule 3200, a *Dealer Member* that opens an *advisory account* for an *institutional client* must:

(i) comply with the requirements in Parts A through C of Rule 3200, and if applicable, Parts E through G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3231. – 3239. Reserved.

PART D – ORDER EXECUTION ONLY ACCOUNTS

3240. Rules applicable to order execution only accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that opens an *order execution only account* for a *retail client* must comply with the applicable requirements in Parts A, B, D, E and F of Rule 3200.

~~(2)~~ (2) For the purposes of Rule 3200, a *Dealer Member* that opens an *order execution only account* for an *institutional client* must:

(i) comply with the applicable requirements in Parts A, B, D, E and F of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3241. Order execution only account services

(1) A *Dealer Member* approved by ~~*IIROC*~~the *Corporation* to provide *order execution only account* services within either a separate legal entity or a separate business unit, must:

(i) implement the policies and procedures required by ~~*IIROC*~~*Corporation requirements*, and

(ii) not allow its *order execution only account* service clients to:

(a) use their own automated order system, as defined in *securities laws*, to generate orders to be sent to the *Dealer Member* or send orders to the *Dealer Member* on a pre-determined basis, or

(b) manually send orders or generate orders to the *Dealer Member* that exceed the threshold on the number of orders as set by ~~*IIROC*~~the *Corporation* from time to time,

(iii) not provide *order execution only account* services to any *person* that is not an *individual* and is acting as and, registered or exempted from registration as a dealer in accordance with *securities laws,* and trades on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider.

(2) Despite clause ~~(1~~3241(1)(iii), a *Dealer Member* may provide an *order execution only account* service to a *person* that is exempted from registration as a dealer under section 8.4 of National Instrument 31-103.

(3) A *Dealer Member* approved by ~~*IIROC*~~the *Corporation* to provide *order execution only account* services must, prior to opening an *order execution only account*:

(i) provide the following written disclosures to the client:

(a) a statement confirming that the *Dealer Member* will not provide any recommendations to the client and that the client is solely responsible for making all investment decisions in the *order execution only account*,

(b) a statement confirming that the *Dealer Member* will not be responsible for making a suitability determination for the client, as set out in sections 3402 or 3403 (other than as required by clauses 3402(3)(i) and 3403(4)(i)), and, in particular, that the *Dealer Member* will not consider the client's personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon, nor other similar factors, and

(c) a statement confirming that the *Dealer Member* will not be responsible for making a determination that the products and account types offered by the *Dealer Member* in the *order execution only account* are appropriate for the client,

and

(ii) obtain a positive acknowledgement from the client, and each beneficial owner of the account, confirming that the client, and each beneficial owner, has received and understood the disclosures described in clause 3241(3)(i).

(4) The *Dealer Member* must maintain, in an accessible form, a record of the acknowledgement obtained under clause 3241(3)(ii) in the following form:

(i) the client's signature or initials on a new client form or other document, specifically related to the disclosure and acknowledgement,

(ii) an electronic acknowledgement attached to the disclosure and acknowledgement text, or

(iii) a tape recording of a verbal acknowledgement.

(5) The *Dealer Member* must ensure that a client identifier is assigned to each client that trades on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider whose trading activity on *Marketplaces* for which ~~*IIROC*~~the *Corporation* is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month.

(6) The *Dealer Member* must ensure that a unique identifier is assigned to any *adviser* that trades on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider and that:

(i) is itself a *client* of the *Dealer Member*, or

(ii) has been granted trading authority, direction or control over an account of a *client* of the *Dealer Member*.

(7) The *Dealer Member* must ensure that a unique identifier is assigned to any *foreign adviser equivalent* that trades on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider and that:

(i) is itself a *client* of the *Dealer Member*, or

(ii) has been granted trading authority, direction or control over an account of a *client* of the *Dealer Member*.

(8) The client identifier required in subsection 3241(5), clause 3241(6)(i) and clause 3241(7)(i) must be in the form of:

(i) a *Legal Entity Identifier* for clients eligible to receive a *Legal Entity Identifier* under the standards set by the *Global Legal Entity Identifier System*, or

(ii) an account number for all other client orders not included under subsection 3241(5), clause 3241(6)(i) and clause 3241(7)(i).

(9) If an account number is used as the client identifier under clause 3241(8)(ii), the *Dealer Member* must provide the account number and the name of the corresponding client to ~~*IIROC*~~the *Corporation*.

(10) The *Dealer Member* must provide each unique identifier assigned pursuant to clause 3241(6)(ii) and clause 3241(7)(ii) and the name of the corresponding firm to ~~*IIROC*~~the *Corporation*.

(11) For clients using an *order execution only account* that are not referred to under subsection 3241(5), clause 3241(6)(i), or clause 3241(7)(i), the *Dealer Member* must use an account number as the client identifier.

(12) The *Dealer Member* must ensure that each order in a listed security entered on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider contains:

(i) the *Legal Entity Identifier* of the *Dealer Member* if it is a non-executing *Dealer Member* that is not a *Participant*, and

(ii) a designation to indicate the order is for an *order execution only account*.

(13) The Dealer Member must ensure that each order in a *listed security* entered on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider contains either:

(i) the identifier required under subsection 3241(5), clause 3241(6)(i), clause 3241(7)(i) or subsection 3241(11), or

(ii) a designation to indicate the order is a *bundled order* or a *multiple client order*.

(14) The *Dealer Member* must ensure that each order entered on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider by or on behalf of a firm for whom a unique identifier must be assigned pursuant to clause 3241(6)(i) or clause 3241(7)(i) contains the unique identifier assigned to that firm.

(15) The *Dealer Member* must ensure that each order entered on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider by or on behalf of an account over which an *adviser* or *foreign adviser equivalent* has been granted trading authority, direction or control and an identifier was assigned pursuant to clause 3241(6)(ii) or clause 3241(7)(ii) contains the identifier assigned to that firm.

(16) Despite the requirement to include a client identifier assigned under subsection 3241(5) on an order sent to a *Marketplace*:

(i) if an *adviser* is assigned a unique identifier pursuant to clause 3241(6)(ii), each order entered by or on behalf of an account, over which that *adviser* has been granted trading

authority, direction or control, on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider must contain the unique identifier assigned to that *adviser*, or

(ii) if a *foreign adviser equivalent* is assigned a unique identifier pursuant to clause 3241(7)(ii), each order entered by or on behalf of an account over which that *foreign adviser equivalent* has been granted trading authority, direction or control, on a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider must contain the unique identifier assigned to that *foreign adviser equivalent*.

(17) The non-executing *Dealer Member* that is not a *Participant* must ensure that the registration status of its *Legal Entity Identifier* has not lapsed.

(18) A *Dealer Member* approved by ~~*IIROC*~~the *Corporation* to provide *order execution only account* services within either a separate legal entity or a separate business unit, must ensure that:

(i) its order-entry systems and records are capable of labeling all account documentation, including monthly statements and confirmations, as "order execution only accounts" or other similar phrase, and

(ii) the client monthly statements of its *order execution only account* services are not consolidated with any other client account statements, including those of any other business unit of the *Dealer Member* or of the *Dealer Member* itself.

3242. – 3244. Reserved.

PART E – MARGIN ACCOUNTS

3245. Rules applicable to margin accounts

~~(1)~~ (1) For the purposes of Rule 3200, a *Dealer Member* that opens a margin account for a *retail client* must comply with the requirements in Parts A, B and E of Rule 3200, and if applicable, Parts C, D, F and G of Rule 3200.

~~(2)~~ (2) For the purposes of Rule 3200, a *Dealer Member* that opens a margin account for an *institutional client* must:

(i) comply with the requirements in Parts A, B and E of Rule 3200, and if applicable, Parts C, D, F and G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3246. Margin requirements - when to extend margin to clients

(1) In deciding whether to allow a client to trade on margin, a *Dealer Member* must ensure that the client is aware of the risks and benefits associated with trading on margin.

3247. Margin account agreement

(1) Prior to opening a margin account, a *Dealer Member* must:

(i) deliver a margin account agreement to the client, and

(ii) obtain a copy of the margin account agreement signed by the client.

(2) A *Dealer Member's* margin account agreement must, at a minimum, contain a written description of the following rights and obligations:

(i) the client's obligation to pay their indebtedness to the *Dealer Member* and to maintain adequate margin,

(ii) the client's obligation to pay interest on debit balances in their account,

(iii) the *Dealer Member's* right to raise money on and pledge assets held in the client's account,

(iv) the extent to which the *Dealer Member* has the right to use *free credit balances* in the client's account for its own business or to cover debits in the same or other accounts,

(v) the *Dealer Member's* right to sell assets in the client's account and make purchases to cover short sales. If the client requires prior notice, the *Dealer Member* must set out the nature of the notice and the client's obligations to remedy any deficiency,

(vi) the extent of the *Dealer Member's* right, if any, to use a security in the client's account for delivery against a short sale,

(vii) the extent to which the *Dealer Member* has the right, if any, to use a security in the client's account for delivery against a short sale in an account owned or controlled by the *Dealer Member*, a partner or *Director*,

(viii) the extent of the *Dealer Member's* right to use assets in the client's account and to hold them as collateral for the client's debt, and

(ix) the *Dealer Member's* obligation to carry out all transactions in accordance with *~~IIROC~~Corporation requirements* and, where applicable, the requirements of the marketplace on which the transaction has been executed.

3248. – 3249. Reserved.

PART F – ADDITIONAL ACCOUNT OPENING AND UPDATING PROCEDURES FOR OPTIONS, FUTURES CONTRACT AND FUTURES CONTRACT OPTIONS TRADING

3250. Rules applicable to options, futures contracts and futures contract options trading accounts

~~(1)~~ (1) For the purposes of Rule 3200, a *Dealer Member* that opens a *options*, *futures contract* and *futures contract options* trading accounts for a *retail client* must comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200.

~~(2)~~ (2) For the purposes of Rule 3200, a *Dealer Member* that opens an *options*, *futures contract* and *futures contract options* trading accounts for an *institutional client* must:

(i) comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

~~(3)~~ (3) A *Dealer Member* must ensure that *persons* trading on its behalf or advising clients in *options, futures contracts* and *futures contract options* trading accounts meet minimum proficiency requirements.

3251. Reserved.

OPTIONS ACCOUNTS

3252. Additional requirements when opening an options account

(1) Before entering an initial *options* trade in an account, a *Dealer Member* must:

(i) obtain a completed *options* account application from the client,

(ii) obtain a signed *options* trading agreement from the client,

(iii) provide the client with the most recent *options* disclosure statement or similar disclosure document, and

(iv) record the *designated Supervisor's* approval of each client account in writing.

(2) The *designated Supervisor* must determine whether the risk characteristics of the strategies the client intends to use are appropriate for the client and in keeping with their personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon and puts the client's interest first. If they are not, the *designated Supervisor* should restrict the account from using inappropriate strategies and note on the *option* account approval any trading restrictions imposed and communicate those restrictions to the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* assigned to the account.

3253. Options trading agreement

(1) A *Dealer Member's options* trading agreement must define the rights and obligations of the *Dealer Member* and the client and, at a minimum, must include the following:

(i) the time periods during which the *Dealer Member* accepts orders for execution,

(ii) the *Dealer Member's* right to exercise discretion in accepting orders,

(iii) the *Dealer Member's* obligations when errors and omissions occur,

(iv) the method for distributing exercise assignment notices,

(v) the *Dealer Member's* deadlines for a client to submit an exercise notice,

(vi) a notice that:

(a) the *Dealer Member* may set maximum limits on short positions,

(b) the *Dealer Member* may apply cash-only terms during the last 10 days before expiry, and

(c) ~~*IIROC*~~the *Corporation* may impose other rules affecting existing or subsequent transactions.

(vii) the client's obligation to instruct the *Dealer Member* to close positions before expiry,

(viii) the client's obligation to comply with ~~*IIROC*~~*Corporation requirements* and any entity's requirements through which the *options* is traded, cleared, or issued, including, without limitation, complying with position and exercise limits,

(ix) the client's positive acknowledgement of receiving the current *options* disclosure statement, and

(x) any other matter required by an *options* trading, clearing or issuing entity.

3254. Letter of undertaking

(1) Instead of an *options* trading agreement, a *Dealer Member* may obtain a letter of undertaking for accounts where the client is:

(i) an *acceptable institution,*

(ii) an *acceptable counterparty,* or

(iii) a *regulated entity*.

(2) The letter of undertaking must state that the client agrees to abide by ~~*IIROC's*~~*Corporation requirements* and the requirements of any entity through which *options* are traded or, cleared or issued, including, compliance with position and exercise limits.

3255. Options disclosure statement

(1) A *Dealer Member* must:

(i) provide each *options* client with the current *options* disclosure statement or other similar document, approved by ~~*IIROC*~~the *Corporation* before accepting an initial *options* order from the client,

(ii) obtain the client's positive acknowledgement of receipt of the *options* disclosure statement or similar document described in clause 3255(1)(i),

(iii) provide each *options* client with any amendments to the *options* disclosure statement or similar document, as approved by ~~*IIROC*~~the *Corporation*, and

(iv) maintain a record of the names and addresses of all clients to whom it has provided an *options* disclosure statement, or similar document, including any amendments and the date on which they were provided.

3256. Position and exercise limits

(1) A *Dealer Member* must comply with the requirements of any entity through which it trades or clears an *option*.

(2) A *Dealer Member* must comply with the position and exercise limits that apply under subsection 3256(1).

FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS ACCOUNTS

3257. Additional requirements when opening a futures contract or futures contract option account

(1) Before entering an initial *futures contract* or *futures contract option* trade in an account, a *Dealer Member* must:

(i) obtain a completed *futures contract* account application or *futures contract options* account application from the client,

(ii) obtain a signed *futures contract* or *futures contract option* trading agreement from the client,

(iii) provide the client with the most recent futures disclosure statement or similar statement, and

(iv) record the *designated Supervisor's* approval in writing.

(2) The *designated Supervisor* must determine whether the risk characteristics of the strategies the client intends to use are appropriate for the client and in keeping with their personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon and puts the client's interest first. If they are not, the *designated Supervisor* should restrict the account from using inappropriate strategies and note, on the *futures contract* account application or the *futures contract option* application, any trading restrictions imposed and communicate those restrictions to the *Registered Representative*, *Portfolio Manager or Associate Portfolio Manager* assigned to the account.

3258. Futures contract and futures contract option trading agreement

(1) A *Dealer Member's futures contract* and *futures contract option* trading agreement must define the rights and obligations of the *Dealer Member* and the client and, at a minimum, must include the following:

(i) the time periods during which the *Dealer Member* accepts orders for execution,

(ii) the *Dealer Member's* right to exercise discretion in accepting orders,

(iii) the *Dealer Member's* obligations when errors or omissions occur,

(iv) the method for distributing exercise assignment notices,

(v) the *Dealer Member's* deadlines for a client to submit an exercise notice,

(vi) the *Dealer Member's* right to impose trading limits or closeout positions under specified conditions,

(vii) for *futures contract options*, the method for distributing exercise assignment notices and the client's obligation to instruct the *Dealer Member* to close out contracts before the expiry date,

(viii) the conditions under which the *Dealer Member* may apply the client's funds, securities or other property in the account or any other accounts of the client to satisfy outstanding debts or margin calls,

(ix) the extent of the *Dealer Member's* right to use *free credit balances* in the client's account for its own business or to cover debits in the same or other accounts,

(x) the requirement for the *Dealer Member* to obtain client consent before the *Dealer Member* may take the other side to the client's transaction, and whether the client provides such consent,

(xi) the *Dealer Member's* right to raise money on and pledge assets held in the client's account,

(xii) the extent of the *Dealer Member's* right to deal with securities and other assets in the client's account and to hold them as collateral against the client's debts,

(xiii) the *Dealer Member's* right to provide information to regulators regarding reporting and position limits,

(xiv) the client's obligations to comply with reporting, position limit and exercise limit requirements that the relevant futures exchange or its clearing house establishes,

(xv) a statement that the *Dealer Member* requires a client to maintain a minimum margin that is the greater of:

(a) the amount the futures exchange or clearing house prescribes,

(b) ~~IIROC's~~*Corporation requirements*, or

(c) the *Dealer Member's* requirements,

(xvi) the client's obligation to maintain adequate margin and security and to pay any debts to the *Dealer Member*,

(xvii) a statement that the *Dealer Member* may commingle and use the client's margin funds or property in its own business,

(xviii) the client's obligations to pay commission, if any,

(xix) the client's obligation to pay interest on debit balances in the account, if any,

(xx) whether any discretionary authority is given to the *Dealer Member*, and if so, the discretionary authority must be clearly explained and specifically confirmed by the client, unless such discretionary authority is provided in another document. The authority must be consistent with the requirements contained within Part G of Rule 3200,

(xxi) the client's positive acknowledgement that they have received the futures disclosure statement, and

(xxii) other than for a hedging account, a risk disclosure limit for futures trading indicating the maximum amount of cumulative losses the client can sustain which can be:

(a) on a life time basis, or

(b) on an annual basis, provided that it is updated annually.

3259. Letters of undertaking

(1) Instead of a *futures contract* or *futures contract option* trading agreement, a *Dealer Member* may obtain a letter of undertaking for accounts where the client is:

(i) an *acceptable institution*,

(ii) an *acceptable counterparty*,

(iii) a *regulated entity,* or

(iv) another adviser registered under any *applicable laws* relating to trading or advising in respect of *futures contracts* or *futures contract options*.

(2) The letter of undertaking must state that:

(i) the client agrees to abide by ~~IIROC~~the *Corporation's requirements* and the requirements of any entity through which *futures contracts* or *futures contract options* are traded or cleared, including complying with position and exercise limits, and

(ii) if the client has an account that is charged interest on a debit balance, the conditions under which transfers of the client's funds, securities or other property may be made between accounts, unless these conditions are acknowledged by the client in another document.

3260. Futures disclosure statement

(1) A *Dealer Member* must:

(i) provide the client with the current futures disclosure statement or other similar document, approved by ~~IIROC~~the *Corporation*, before accepting a *futures contract* or *futures contract options* account,

(ii) obtain the client's positive acknowledgement of receipt of the futures disclosure statement or similar document described in clause 3260(1)(i),

(iii) provide each *futures contract* or *futures contract options* client with any amendments to the futures disclosure statement or similar document, approved by ~~*IIROC*~~the *Corporation*, and

(iv) maintain *records* showing the names and addresses of all clients to whom it has sent a futures disclosure statement or similar documents, including any amendments and the date on which they were provided.

3261. – 3269. Reserved.

PART G – DISCRETIONARY ACCOUNTS AND MANAGED ACCOUNTS

3270. Definitions

(1) The following term has the meaning set out below when used in sections 3271 through 3281:

"responsible person"	A partner, *Director*, *officer*, *employee* or *agent* of a *Dealer Member* who: (i) exercises discretionary authority over the account of a client or approves discretionary orders for an account when exercising such discretion or giving such approval pursuant to sections 3273 through 3276, or (ii) participates in the formulation of, or has prior access information regarding investment decisions made on behalf of or advice given to a *managed account* but does not include a sub-adviser under section 3279.

3271. Rules applicable to discretionary accounts and managed accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that accepts a *discretionary account* or a *managed account* for a *retail client* must comply with the requirements in Parts A, B and G of Rule 3200, and if applicable, Parts C, E and F of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens a *discretionary account* or a *managed account* for an *institutional client* must:

~~(i)~~ (i) comply with the requirements in Parts A, B and G of Rule 3200, and if applicable, Parts C, E and F of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

(3) The *Dealer Member* must ensure that *individuals* trading or advising on its behalf, in *discretionary accounts* or *managed accounts*, meet the applicable proficiency requirements.

3272. Reserved.

DISCRETIONARY ACCOUNTS

3273. Accepting a discretionary account

(1) To accept *discretionary accounts*:

(i) the *Dealer Member* must designate one or more *designated Supervisors*, who meet the proficiency requirements set out in Rule 2600, to be responsible for the *discretionary accounts*,

(ii) the *Dealer Member*'s policies and procedures must specifically address the supervision and operation of *discretionary accounts* in accordance with Rule 3900,

(iii) the *Dealer Member* must identify *discretionary accounts* in its books and *records* to allow supervision of the *discretionary accounts* in accordance with Rule 3900,

(iv) the *Dealer Member* must enter into a *discretionary account* agreement with the client prior to accepting the account as a *discretionary account*,

(v) the *designated Supervisor* must approve the account as a *discretionary account* and approve the *discretionary account* agreement signed by the client, and

(vi) the *Dealer Member* must maintain a record of the *designated Supervisor's* approval in accordance with the record retention requirements in section 3803.

3274. Discretionary account agreement

(1) A *discretionary account* agreement must:

(i) define the extent of the discretionary authority given to the *Dealer Member* by the client,

(ii) include any restrictions on the discretionary authority,

(iii) have a maximum term of no longer than 12 months,

(iv) not be renewable, and

(v) set out the terms of termination in accordance with subsection 3274(2).

(2) A *discretionary account* agreement may only be terminated by written notice:

(i) by the client, effective when received by the *Dealer Member*, except for orders entered prior to receipt of the notice, or

(ii) by the *Dealer Member*, effective not less than 30 days from the date the *Dealer Member* delivered the notice to the client.

3275. Persons authorized to affect discretionary trades

(1) A *Registered Representative* may only be authorized to affect trades for a *discretionary account* if:

(i) the *Registered Representative* has at least two years of active experience in trading, advising or performing analysis with respect to all types of products that are to be traded on a discretionary basis, and

(ii) the *discretionary account* is maintained at the *Dealer Member* on whose behalf the *Registered Representative,* conducts business.

3276. Conflicts of interest

(1) A *discretionary account* must not hold any publicly traded securities of the *Dealer Member* or its *affiliates.*

(2) A *responsible person* or a *Dealer Member* must not trade for his or her or the *Dealer Member's* own account, or knowingly permit or arrange any *associate* or *affiliate* to trade, in reliance upon information relating to trades made or to be made in a *discretionary account*.

(3) A *responsible person* or a *Dealer Member* must not, without the prior written consent of the client, knowingly allow a *discretionary account* to:

(i) invest in a security or *derivative* of a security of an issuer if the *individuals* authorized under subsection 3275(1) to deal with *discretionary accounts* is an officer or director of the issuer, unless the position with the issuer is disclosed to the client, or

(ii) invest in new issues or secondary offerings underwritten by the *Dealer Member*.

(4) A *responsible person* or a *Dealer Member* must not allow a *discretionary account* to provide a guarantee or loan to a *responsible person* or an *associate* of a *responsible person*.

MANAGED ACCOUNTS

3277. Opening a managed account

(1) To accept *managed accounts*:

(i) the *Dealer Member* must designate a *Supervisor* to be responsible for *managed accounts*,

(ii) the *Dealer Member*'s policies and procedures must specifically address the supervision and operation of *managed accounts* in accordance with ~~*IIROC*~~*Corporation requirements*,

(iii) the *Dealer Member* must enter into a *managed account* agreement with the client prior to opening a *managed account*,

(iv) the *designated Supervisor* must approve each *managed account* in writing,

(v) the *Dealer Member* must retain a record of the *designated Supervisor's* approval, and

(vi) the *Dealer Member* must provide the client with a copy of its policy ensuring fair allocation of investment opportunities.

3278. Managed account agreement

(1) The *managed account* agreement must:

(i) describe or refer to the client's personal and financial circumstances, investment knowledge, investment time horizon, investment needs and objectives and risk profile that are applicable to the *managed account* or accounts,

(ii) describe any investment restrictions imposed by the client, where permitted by the *Dealer Member*, and

(iii) set out the terms of termination in accordance with subsection 3278(2).

(2) The *managed account* agreement may only be terminated by written notice:

(i) by the client, effective on receipt by the *Dealer Member*, except for transactions entered prior to receipt of the notice, or

(ii) by the *Dealer Member*, effective not less than 30 days from the date the *Dealer Member* delivered the notice to the client.

3279. Persons authorized to deal with managed accounts

(1) A *Dealer Member* must designate an *individual* authorized to deal with *managed accounts* who is:

(i) a *Portfolio Manager*,

(ii) an *Associate Portfolio Manager*, or

(iii) a sub-advisor with whom the *Dealer Member* has entered into a written sub-advisor agreement.

(2) The sub-advisor in clause 3279(1)(iii) must be:

(i) registered or licensed, or operating under an exemption from registration or licensing, under *securities laws* of the jurisdiction in which its head office or principal place of business is located, that permits it to carry on *managed account* activities, or its equivalent, in such jurisdiction, and

(ii) subject to legislation or regulations containing conflict of interest provisions at least equivalent to those set out in section 3280 or has entered into an agreement with the *Dealer Member* that it will comply with section 3280.

3280. Conflicts of interest

(1) A *responsible person* or a *Dealer Member* must not trade for their or the *Dealer Member's* own account, or knowingly permit or arrange any *associate* or *affiliate* to trade, in reliance upon information relating to trades made or to be made in a *managed account*.

(2) A *responsible person* or a *Dealer Member* must not, without the prior written consent of the client, knowingly allow a *managed account* to:

(i) invest in a security or *derivative* of a security of an issuer that is related or connected to a *responsible person* or to the *Dealer Member*,

(ii) invest in a security or *derivative* of a security of an issuer if the *individuals* authorized under subsection 3279(1) to deal with *managed accounts* is an officer or director of the issuer, unless the position with the issuer is disclosed to the client, or

(iii) invest in new issues or secondary offerings underwritten by the *Dealer Member*.

(3) A *responsible person* or a *Dealer Member* must not knowingly cause any *managed account* to:

~~(i)~~ (i) purchase or sell a security or *derivative* of a security of an issuer from or to the account of a *Portfolio Manager*, an *Associate Portfolio Manager* or an *associate* of a *Portfolio Manager* or an *associate* of an *Associate Portfolio Manager,*

~~(ii)~~ (ii) purchase or sell a security or *derivative* of a security of an issuer from or to an investment fund for which a *responsible person* acts as an adviser, or

~~(iii)~~ (iii) provide a guarantee or loan to a *responsible person* or an *associate* of a *responsible person*.

(4) A *Dealer Member* must fairly allocate investment opportunities among its *managed accounts.*

3281. Fees and remuneration

(1) A *Dealer Member* may not charge a client directly for services rendered to the *managed account*, that is:

(i) based upon the volume or value of transactions in the account initiated for the account, or

(ii) contingent upon profit or performance of the client's account,

unless the client has provided the *Dealer Member* with a written agreement which sets out the manner in which the fees may be charged based on volume or value of transactions or contingent upon profit or performance.

(2) A *Dealer Member* must not compensate a *person* referred to in section 3279, on the basis of the value or volume of transactions in the account.

3282. -3299. Reserved.

RULE 3300 | PRODUCT DUE DILIGENCE AND KNOW-YOUR-PRODUCT

3301. Product Due Diligence

(1) A *Dealer Member* must not make securities available to clients unless the *Dealer Member* has taken reasonable steps to:

(i) assess the relevant aspects of the securities, including the securities' structure, features, risks, initial and ongoing costs and the impact of those costs,

(ii) approve the securities to be made available to clients, and

(iii) monitor the securities for significant changes.

(2) An *Approved Person* must not purchase securities for, or recommend securities to, a client unless the securities have been approved by the *Dealer Member* to be made available to clients under subsection 3301(1).

3302. Know-Your-Product

(1) An *Approved Person* of a *Dealer Member* must not purchase or sell securities for, or recommend securities to, a client unless the *Approved Person* takes steps to understand the securities, including the securities' structure, features, risks, initial and ongoing costs and the impact of those costs.

(2) For purposes of subsection 3302(1), the steps required to understand the security are those that are reasonable to enable the *Approved Person* to meet their obligations under Rule 3400.

3303. Exemptions from Product Due Diligence and Know-Your-Product

(1) Section 3301 does not apply in respect to an account maintained at a *Dealer Member* who is a *carrying broker* for that account or who only provides trade execution, clearing, settlement or custody services or a combination of these services to another *Dealer Member*, portfolio manager, exempt market dealer or their respective clients, for that account.

(2) Section 3302 does not apply in respect to:

(i) an *order execution only account,*

(ii) a *direct electronic access account*, or

(iii) an account maintained at a *dealer member* who is a *carrying broker* for that account or who only provides trade execution, clearing, settlement or custody services or a combination of these services to another *dealer member*, portfolio manager, exempt market dealer or their respective clients, for that account.

3304. - 3399. Reserved.

RULE 3400 | SUITABILITY DETERMINATION

3401. Introduction

(1) Rule 3400 sets out a *Dealer Member's* suitability determination obligations in dealing with clients.

3402. Retail client suitability determination requirements

~~(1)~~ (1) Before a *Dealer Member* purchases, sells, withdraws, exchanges or transfers-out securities for a *retail client*'s account, takes any other investment action for a client, makes a recommendation or exercises discretion to take any such action, the *Dealer Member* must determine, on a reasonable basis, that the action satisfies the following criteria:

~~(i)~~ (i) the action is suitable for the *retail client*, based on the following factors:

~~(a)~~ (a) the *retail client*'s information collected in accordance with section 3202,

~~(b)~~ (b) the *Dealer Member*'s assessment of and an *Approved Person*'s understanding of the security required in accordance with Rule 3300,

~~(c)~~ (c) the impact of the action on the *retail client*'s account, including the concentration of securities within the account and the liquidity of thosesecurities,

~~(d)~~ (d) the potential and actual impact of costs on the *retail client*'s returns, and

~~(e)~~ (e) a consideration of a reasonable range of alternative actions available to the *Registered Representative, Portfolio Manager*, or *Associate Portfolio Manager* through the *Dealer Member* at the time the determination is made, and

~~(ii)~~ (ii) the action puts the *retail client*'s interest first.

~~(2)~~ (2) A *Dealer Member* must review the *retail client*'s account and the securities in the *retail client's* account to determine whether the criteria in subsection 3402(1) are met, and take reasonable steps, within areasonable time, after any of the following events:

~~(i)~~ (i) securities are received or delivered into the client's account by way of deposit or transfer-in,

~~(ii)~~ (ii) a *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* is designated as responsible for the account,

~~(iii)~~ (iii) the *Dealer Member* becomes aware of a change in the *retail client*'s information collected in accordance with subsection 3202(1) that could result in a security or the *retail client*'s account not satisfying subsection 3402(1),

~~(iv)~~ (iv) the *Dealer Member* becomes aware of a change in a security in the *retail client*'s account that could result in the security or account not satisfyingsubsection 3402(1), or

~~(v)~~ (v) the *Dealer Member* reviews the *retail client*'s information in accordancewith subsection 3209(4).

~~(3)~~ (3) A *Dealer Member* must determine, on a reasonable basis and putting the *retail client*'s interest first, that:

~~(i)~~ (i) it is suitable for the *retail client* to continue having an account with the *Dealer Member*, and

~~(ii)~~ (ii) the scope of products, services and account relationships which the *retail client* has access to within the account are suitable for the *retail client*.

~~(4)~~ (4) When making a suitability determination pursuant to subsection 3402(1), a *Dealer Member* must determine, on a reasonable basis, that the *retail client*'s account portfolio of investments that

would result from the investment action the *Dealer Member* takes, recommends or exercises discretion to take is suitable for the *retail client* and puts the *retail client*'s interest first.

~~(5)~~ (5) Despite subsection 3402(1), if a *Dealer Member* receives an instruction from a *retail client* to take an action that, if taken, does not satisfy subsections 3402(1), the *Dealer Member* may carry out the *retail client*'s instruction if the *Dealer Member* has:

~~(i)~~ (i) informed the *retail client* of the basis for the determination that the action will not satisfy subsection 3402(1) and advised the client against proceeding with the order,

~~(ii)~~ (ii) recommended to the *retail client* an alternative action that satisfies subsection3402(1), and

~~(iii)~~ (iii) received recorded confirmation of the *retail client*'s instruction to proceed with the action despite the determination referred to in clause 3402(5)(i).

3403. Institutional client suitability determination requirements

(1) Subject to the applicable exemptions set out in section 3404, a suitability determination must be made for an *institutional client*:

(i) before any order is accepted from the client, and

(ii) before a recommendation is made to the client to purchase, sell, exchange or hold a security.

(2) When a suitability determination must be made for an *institutional client* pursuant to subsection 3403(1), a *Dealer Member* must make a determination whether the client is sufficiently sophisticated and capable of making its own investment decisions in order to determine the level of suitability owed to that *institutional client*. In making a determination whether a client is capable of independently evaluating investment risk and is exercising independent judgment, relevant considerations include:

(i) any written or oral understanding that exists between a *Dealer Member* and its client regarding the client's reliance on the *Dealer Member*,

(ii) the presence or absence of a pattern of acceptance of the *Dealer Member's* recommendations,

(iii) the use by a client of ideas, suggestions, market views and information obtained from other *Dealer Members*, market professionals or issuers particularly those relating to the same type of securities,

(iv) the use of one or more investment dealers, portfolio managers or other third party advisors,

(v) the general level of experience of the client in financial markets,

(vi) the specific experience of the client with the type of instrument under consideration, including the client's ability to independently evaluate how market developments would affect the security and ancillary risks such as currency rate risk, and

(vii) the complexity of the securities involved.

(3) Once each suitability determination has been made and:

(i) the *Dealer Member* has reasonable grounds for concluding that the *institutional client* is capable of making an independent investment decision and independently evaluating the investment risk, then the *Dealer Member's* suitability obligation is fulfilled for that transaction, or

(ii) the *Dealer Member* does not have reasonable grounds for concluding that the *institutional client* is capable of making an independent investment decision and independently evaluating the investment risk, then the *Dealer Member* must take steps to ensure that the *institutional client* fully understands the investment product, including the potential risks.

(4) A *Dealer Member* must determine, on a reasonable basis and putting the *institutional client's* interest first, that:

~~(i)~~ (i) it is suitable for the *institutional client* to continue having an account with the *Dealer Member*, and

~~(ii)~~ (ii) the scope of products, services and account relationships which the *institutional client* has access to within the account are suitable for the *institutional client*.

3404. Exemptions from the suitability determination requirements

(1) Other than clauses 3402(3)(i) and 3403(4)(i), sections 3402 or 3403 do not apply in respect to:

(i) an *order execution only account*, or

(ii) a *direct electronic access account.*

~~(2)~~ (2) Sections 3402 and 3403 do not apply in respect to an account maintained at a *Dealer Member* who is a *carrying broker* for that account or who only provides trade execution, clearing, settlement or custody services or a combination of these services to another *Dealer Member*, portfolio manager, exempt market dealer or their respective clients, for that account.

~~(3)~~ (3) Other than subsection 3403(4), section 3403 does not apply in respect to:

(i) an account held by a *Dealer Member*, *regulated entity*, exempt market dealer, portfolio manager, bank, trust company or insurance company, or

(ii) an account held by an *institutional client* that:

(a) is also a "permitted client", as defined in National Instrument 31-103,

(b) is not a client described in clause 3404(3)(i), and

(c) has waived, in writing, the protections offered to them under subsections 3403(1) and 3403(2).

~~(4)~~ (4) Subsection 3403(4) does not apply to an account held by an *institutional client* who is a *Dealer Member*, *regulated entity*, exempt market dealer, portfolio manager, bank, trust company or insurance company.

3405. Reserved.

3406. Primary responsibility and delegation

(1) Compliance with ~~*IIROC*~~*Corporation requirements* relating to suitability determination is primarily the responsibility of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* assigned to the client account.

(2) *Registered Representatives, Portfolio Managers* and *Associate Portfolio Managers* must not delegate their responsibility for suitability assessment obligations to any other *person*.

3407 - 3499. Reserved.

RULE 3500 | SALES PRACTICES

3501. Introduction

(1) Rule 3500 sets out minimum standards that *Dealer Members* must follow in their dealings with clients and when developing policies and procedures that specifically address sales practices.

3502. Definitions

(1) The following terms have the meaningset out below when used in Rule 3500:

"commencement of distribution"	The time when a *Dealer Member* has had *distribution discussions* which are of sufficient specificity that it is reasonable to expect that the *Dealer Member* (alone or with other underwriters) will propose an underwriting of *equity securities* to the issuer or selling security-holder.
"distribution"	The same meaning as defined under *securities laws* and includes a distribution pursuant to a bought deal agreement.
"distribution discussions"	Discussions by a *Dealer Member* with an issuer or a selling security-holder, or with another underwriter that has had discussions with an issuer or selling security-holder, concerning a *distribution*.

3503. Client priority

(1) A *Dealer Member* must give priority to client orders over all other orders for the same security at the same price.

(2) The *Dealer Member* must not give priority to orders for an account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged.

(3) Where investment decisions are made centrally and applied across a number of *managed accounts*, subsections 3503(1) and 3503(2) do not apply to the *managed accounts* of partners, *Directors*, *officers, employees* or *Approved Persons* of a *Dealer Member* who participate in a *managed account* program on the same basis as client accounts.

3504. Commission fees, service fees and other account related fees

(1) Upon the opening of an account, or 60 days prior to any fee being charged with respect to the account, a *Dealer Member* must provide each client with a fee schedule relating to any:

(i) fixed dollar or fixed percentage commission fees,

(ii) service fees,

(iii) administrative fees, and

(iv) other account charges.

(2) A *Dealer Member* who charges any of the fees identified in subsection 3504(1) may not charge a higher fee unless it has given 60 days' notice of this change to its clients.

(3) The requirements set out in subsections 3504(1) and (2) do not apply to accounts of *institutional clients*.

(4) The disclosure requirements set out in subsections 3504(1) and (2) do not apply to interest charged by a *Dealer Member* in respect of an account.

(5) A *Dealer Member* may not charge a client a fee that is contingent upon the profit or performance of the client's account, unless specifically permitted under ~~*IIROC*~~*Corporation requirements*.

3505. Payment of commission fees

(1) Unless otherwise permitted under *securities laws*, a *Dealer Member* must not pay any commission fees or other fees in connection with payments received from a client or issuer, to any *person* other than a *Registered Representative*, *Investment Representative*, *Portfolio Manager* or *Associate Portfolio Manager*.

3506. During the period of distribution

(1) During the period of *distribution*, a *Dealer Member* who participates in a *distribution* as an underwriter or as a member of a banking or selling group, must not offer for sale or accept any offer to buy all or any part of those securities at a price higher than the stated initial public offering price of the securities, and

(2) This obligation continues until the *Dealer Member* has notified the applicable securities commission that its role in the *distribution* has ended.

3507. New issues

(1) For the purpose of section 3507, the term "normal investment practice" does not include an account that has regularly purchased "hot issues" based on the history of investments in that account with the *Dealer Member*.

(2) A *Dealer Member* must make a bona fide offering of the total amount of its participation in a new issue to public investors.

(3) Public investors do not include an officer or employee of a bank, insurance company, trust company, investment fund, pension fund or similar institutional body or the immediate families of an officer or employee of these institutions regularly engaged in the purchase or sale of securities for such institution unless:

(i) the purchases are demonstrated to be for bona fide personal investment, and

(ii) are made in accordance with the *person's* normal investment practice.

3508. Inside information

(1) For the purpose of section 3508 "material non-public information" means material facts or material changes not generally disclosed as defined under *securities laws*.

(2) A *Director*, *Executive* or *employee* of a *Dealer Member* acting as a director to a reporting issuer is a person in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives, employees* or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(3) A representative of a *Dealer Member* acting in an underwriting or *advisory capacity* to a reporting issuer is a person in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives, employees* or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(4) When a *Dealer Member*, *Director*, *Executive* or *employee* of a *Dealer Member* has *material non-public information* about the issuer and discloses it to other personnel of the *Dealer Member* in the necessary course of business, those persons also become persons in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives, employees* or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(5) A *Dealer Member*'s policies and procedures must specifically address maintaining the confidentiality of *material non-public information*.

3509. Premarketing

(1) In subsections 3509(2), 3509(4) and 3509(5), an "informed person" refers to any *employee* or *Approved Person* of a *Dealer Member* who:

(i) participated in or had actual knowledge of the *distribution discussions,* or

(ii) acts on information provided by or is directed by, induced by, or otherwise receives suggestions from a *person* who directly or indirectly participated in or had actual knowledge of the *distribution discussions.*

(2) An *informed person* must not solicit expressions of interest from the public, in the type of securities subject to *distribution discussions*, from the *commencement of distribution* discussions until the earliest of:

(i) the issuance of a receipt for the preliminary prospectus,

(ii) a press release issued and filed in accordance with *applicable laws*, announcing the signing of an enforceable agreement in respect of the potential *distribution*, and

(iii) the *Dealer Member* deciding not to pursue the potential *distribution*.

(3) For the purpose of clause 3509(2)(ii), a press release will be deemed to have been issued when it is released to a news distribution service for distribution and will be deemed to have been filed when delivered or sent to the relevant provincial *securities regulatory authority*, in accordance with *securities laws*.

(4) An *informed person* must not engage, direct, suggest or induce another *informed person* to engage in market making or other principal trading activities in securities that are the subject of *distribution discussions.*

(5) Where a *Dealer Member* and issuer or selling security-holder can show a bona fide intention to distribute the *equity securities* pursuant to a prospectus exemption:

(i) the *Dealer Member* including the *informed person* will not be subject to the restrictions in subsection 3509(2),

(ii) notwithstanding clause 3509(5)(i), the restrictions in subsection 3509(2) will apply from the time it is reasonable to expect that a decision to abandon an exempt offering of *equity securities* in favor of a prospectus offering will be taken.

(6) A *Dealer Member* involved in a *distribution* as an underwriter must:

(i) maintain policies and procedures that specifically address compliance with the obligations under section 3509, and

(ii) monitor the *Dealer Member*, its *employees* and *Approved Persons* compliance with these policies and procedures.

3510. - 3599. Reserved.

RULE 3600 | COMMUNICATIONS WITH THE PUBLIC

3601. Introduction

(1) A *Dealer Member*'s policies and procedures must specifically address communication with the public and the *Dealer Member* must monitor compliance with these policies and procedures to provide reasonable assurance the *Dealer Member*, its *employees* and *Approved Persons* comply with the policies and procedures.

(2) Rule 3600 is divided into the following parts:

Part A – Advertisements, sales literature and correspondence
[sections 3602 and 3603]

Part B – Research reports
[sections 3606 through 3623]

Part C – Misleading Communications
[section 3640]

PART A – ADVERTISEMENTS, SALES LITERATURE AND CORRESPONDENCE

3602. Reserved.

3603. Advertising

(1) A *Dealer Member* must not issue, participate in or knowingly allow the use of its name in any *advertisement*, *sales literature* or *correspondence* that:

(i) contains an untrue statement or omission of a material fact or is otherwise false or misleading,

(ii) contains an unjustified promise of specific results,

(iii) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions,

(iv) contains any opinion or forecast of future events which is not clearly labeled as such,

(v) fails to fairly present the potential risks to the client,

(vi) is detrimental to the interests of the public, ~~*IIROC*~~the *Corporation* or its *Dealer Members*, or

(vii) fails to comply with ~~*IIROC*~~*Corporation requirements* or any *applicable laws.*

(2) A *Dealer Member*'s policies and procedures must specifically address the review and supervision of *advertisements, sales literature* and *correspondence* relating to its business.

(3) A *Dealer Member* must ensure that the following items are approved by a *designated Supervisor* before use or publication:

(i) *research reports*,

(ii) market letters,

(iii) telemarketing scripts,

(iv) promotional seminar texts (excluding educational seminar texts),

(v) original *advertisements* or original template *advertisements*, and

(vi) any material containing performance reports or summaries that is used to solicit clients.

(4) A *Dealer Member* must ensure that all *advertising*, *sales literature* or *correspondence* not listed in subsection 3603(3) is reviewed in a manner appropriate to the type of material through:

(i) pre-use approval,

(ii) post-use review, or

(iii) post-use sampling.

(5) A *Dealer Member* must provide reasonable assurance:

(i) its *employees* and *Approved Persons* are familiar with its policies and procedures relating to *advertisements*, *sales literature* and *correspondence*, and

(ii) its policies and procedures include specific ongoing measures to provide reasonable assurance its policies and procedures are being complied with.

(6) A *Dealer Member* must retain copies of all *advertisements*, *sales literature* and *correspondence* and all *records* of supervision for the period set out in section 3803. These items must be readily available for inspection by ~~*IIROC*~~the *Corporation*.

3604. – 3605. Reserved.

PART B – RESEARCH REPORTS

3606. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 3600:

"analyst"	A *Dealer Member's employee* or *Approved Person* who is held out to the public as an analyst or whose responsibilities to the *Dealer Member* include the preparation, for distribution to clients or prospective clients, of any written report, which includes a recommendation with respect to a security.
"equity related security"	A security whose performance is based on the performance of an underlying *equity security* or a basket of income producing assets, including *derivatives*, convertible securities and income trust units.
"investment banking" or "investment banking service"	Includes but is not limited to: (i) acting as an underwriter in an offering of securities for an issuer, (ii) acting as a financial adviser in a merger or acquisition, or (iii) providing venture capital, lines of credit or serving as a placement agent for an issuer.

3607. Policies and procedures and minimum disclosure

(1) A *Dealer Member*'s policies and procedures must specifically address:

(i) the conduct of *analysts*,

(ii) the publishing of *research reports*, and

(iii) the making of recommendations by *analysts*.

(2) A *Dealer Member* must designate one or more *Supervisors* to be responsible for reviewing and approving *research reports*.

3608. Research report disclosure of potential conflicts of interest

(1) A *research report* prepared by the *Dealer Member* must disclose any matter which might reasonably indicate an existing or potential conflict of interest for the *Dealer Member* or the *analyst*, which includes, but is not limited to, the matters set out in subsection 3608(2).

(2) A *research report* prepared by the *Dealer Member* must disclose:

(i) if the *Dealer Member* or its *affiliat*es has *beneficial ownership* of the *equity securities* of the subject issuer that amounts to one percent or more of any class of such securities:

(a) as of the end of the month prior to the issuance date of the *research report*, or

(b) as of the end of the second most recent month if the report issuance date is less than 10 days after the end of the prior month,

(ii) if:

(a) the *analyst*,

(b) an *associate* of the *analyst*, or

(c) any *person* directly involved in the preparation of the report,

holds or is short any of the issuer's securities directly or indirectly,

(iii) any services provided by any partner, *Director* or *officer* of the *Dealer Member* or *analyst* involved in the preparation of a report, other than services provided in the normal course investment advisory or trade execution services to the issuer for *remuneration,* during the 12 months immediately preceding the date a *research report* or recommendation was issued,

(iv) any *investment banking services* provided by the *Dealer Member* to the issuer for *remuneration* during the 12 months immediately preceding the date a *research report* or recommendation was issued,

(v) the name of any partner, *Director*, *officer*, *employee* or *agent* of the *Dealer Member* who is a partner, director, officer or employee of the issuer, or who serves in an equivalent *advisory capacity* to the issuer, and

(vi) if it is making a market in any *equity security* or *equity related security* of the subject issuer.

3609. Additional disclosures

(1) A *research report* must disclose or indicate where the following information is otherwise available:

(i) the *Dealer Member's* system for rating investment opportunities and how each recommendation fits within the system, and

(ii) the *Dealer Member's* policies and procedures that specifically address the dissemination of its *research reports*.

(2) A *Dealer Member* must, on a quarterly basis, disclose the percentage of its recommendations that fall into each category of its recommendation system.

3610. Quality of disclosures in a research report

(1) A *Dealer Member* must ensure that the *research report* disclosures required in sections 3608 and 3609 are made in a clear, meaningful, comprehensive and prominent manner.

(2) The *Dealer Member* must not use standard disclosure statements when it is more appropriate to use specific information and customized disclosures in order to comply with the requirements set out in section 3608 or 3609.

3611. Independent third party research report

(1) The disclosures required by sections 3608 and 3609 are applicable to *research reports* prepared by an independent third party that is distributed by a *Dealer Member* to its clients under the independent third party's name.

(2) The disclosures in sections 3608 and 3609 are not required in the following circumstances:

(i) in the case of independent third party *research reports* that are issued by members of the Financial Industry Regulatory Authority or *persons* governed by other regulators approved by ~~*IIROC*~~the *Corporation*, or

(ii) when a *Dealer Member* is only giving clients access to independent third party *research report*, or supplying an independent third party *research report* at the request of a client,

and

(iii) the *Dealer Member* discloses that the independent third party *research report* was not prepared in accordance with Canadian disclosure requirements relating to *research reports*.

3612. Directing the reader to disclosures

(1) When a *Dealer Member* distributes a *research report*:

(i) covering six or more issuers, the report may direct the reader to where the disclosures required under sections 3608, 3609 and 3616 may be found, or

(ii) electronically, the report may direct the reader to where the disclosures required under sections 3608, 3609 and 3616 may be accessed by electronic means, such as through the use of a hyperlink.

3613. Visiting an issuer

(1) A *Dealer Member* must disclose in its *research reports*:

(i) whether, and to what extent, an *analyst* has visited the issuer's material operations, and

(ii) if the issuer has paid or reimbursed any of the *analyst's* travel expenses with respect to the visit.

3614. Relationship with the issuer

(1) A *Dealer Member* must not issue a *research report* prepared by an *analyst* on any issuer for which the *analyst*, an *associate* of the *analyst* or the *designated Supervisor*:

(i) serves as an officer, director or employee of the issuer, or

(ii) serves in any *advisory capacity* to the issuer.

3615. Notice to discontinue coverage

(1) A *Dealer Member* must issue notice of its intention to suspend or discontinue coverage of an issuer, to the same audience who received the coverage and in the same manner that the coverage was distributed.

(2) Notice of discontinuance of coverage is not required if the sole reason for the suspension is that the issuer has been placed on a *Dealer Member's* restricted list.

3616. Setting price targets

(1) If a *Dealer Member* sets a price target in a *research report*, the *Dealer Member* must disclose, in that *research report*, the valuation method used.

3617. Prohibited inducements

(1) A *Dealer Member* must not, as consideration or inducement for the receipt of business or compensation from an issuer, directly or indirectly:

(i) offer to issue favourable *research report* on the issuer,

(ii) offer to set a favourable rating or price target on one or more of the issuer's securities,

(iii) offer to delay the changing of a rating or price target on one or more of the issuer's securities or the changing of any other *research report* element, including offering to delay the issue date of the *research report*, or

(iv) threaten to change a rating or a price target on one or more of the issuer's securities or any other element of a *research report.*

3618. Public comments

(1) When giving an interview or otherwise making any public comment about the merits of an issuer or its securities, an *employee* or *Approved Person* of a *Dealer Member* must disclose whether or not the *Dealer Member* has issued a relevant *research report.*

3619. Policies and procedures on trading

(1) A *Dealer Member* who issues or distributes *research reports* must have policies and procedures that specifically address detecting and restricting any trading in *equity securities* or *equity related securities* of a subject issuer that is done with knowledge of or in anticipation of:

(i) the issuance of a *research report*,

(ii) a new recommendation, or

(iii) a change in a recommendation,

related to the subject security that could reasonably be expected to have an effect on the price of the subject securities.

(2) An *individual* directly involved in the preparation or approval of a *research report* must not trade in *equity securities* or *equity related securities* of the subject issuer for a period beginning 30 days prior to and ending five days after the issuance of the *research report*.

(3) Notwithstanding subsection 3619(2), an *individual* may trade with the prior written approval of a designated *Executive* of the *Dealer Member*.

(4) Approval under subsection 3619(3) may not be granted for trades that are contrary to the *analyst's* current recommendation, unless special circumstances exist.

3620. Prohibition on investment banking compensation

(1) A *research report* must disclose if the *analyst* responsible for the report received compensation within the prior 12 months that was based upon the *Dealer Member's investment banking* revenues.

(2) A *Dealer Member* must not pay any bonus, salary or other compensation to an *analyst* that is directly based upon a specific *investment banking* transaction.

3621. Relationship with investment banking

(1) A *Dealer Member*'s policies and procedures must specifically address preventing recommendations in *research reports* from being influenced by the *investment banking* department or the issuer.

(2) The policies and procedures must specifically address, at a minimum:

(i) prohibiting the approval of *research reports* by the *investment banking* department,

(ii) limiting the *investment banking* department's involvement in the production of *research reports* solely to the correction of factual errors,

(iii) prohibiting and preventing the *investment banking* department from receiving advance notice of new ratings or rating changes on covered issuers, and

(iv) establishing systems to control and record the flow of information between *analyst*s and *investment banking* department staff, regarding issuers that are the subject of current or prospective *research reports*.

3622. Quiet periods

(1) A *Dealer Member* must not issue a *research report* on *equity securities* of a subject issuer for which the *Dealer Member* has acted as manager or co-manager:

(i) for 10 days after the date of the offering of an initial public offering of *equity securities* of the subject issuer,

(ii) for three days after the date of the offering of a secondary offering of *equity securities* of the subject issuer.

(2) Subsection 3622(1) does not prevent a *Dealer Member* from issuing a *research report* on the effects of significant news about or a significant event affecting the issuer within the applicable 10 day or three day period.

(3) Subsection 3622(1) does not apply where the subject securities are exempted from restrictions under provisions relating to market stabilization set out in ~~*IIROC*~~*Corporation requirements* and *securities laws*.

3623. Outside business activities

(1) A *Dealer Member* must pre-approve an *analyst's* outside business activities.

3624. – 3639. Reserved.

PART C – MISLEADING COMMUNICATIONS

3640. Misleading communications

(1) An *Approved Person* must not hold themselves out, and a *Dealer Member* must not hold itself or its *Approved Persons* out, including through the use of a *trade name*, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:

(i) the proficiency, experience, qualifications or category of registration or approval of the *Approved Person*,

(ii) the nature of the person's relationship, or potential relationship, with the *Dealer Member* or the *Approved Person*, or

(iii) the products or services provided, or to be provided, by the *Dealer Member* or the *Approved Person*.

(2) For greater certainty, and without limiting subsection 3640(1), an *Approved Person* who interacts with clients must not use any of the following:

(i) if based partly or entirely on that *Approved Person's* sales activity or revenue generation, a title, designation, award, or recognition,

(ii) a corporate officer title, unless their *Dealer Member* has appointed that *Approved Person* to that corporate office pursuant to applicable corporate law, or

(iii) if the *Approved Person's Dealer Member* has not approved the use by that *Approved Person* of a title or designation, that title or designation.

3641. – 3699. Reserved.

RULE 3700 | REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS

3701. Introduction

(1) A *Dealer Member* must report complaints, internal investigations and other matters to ~~*IIROC*~~the *Corporation* as required in Rule 3700.

(2) A *Dealer Member* must investigate allegations of misconduct as required in Rule 3700.

(3) A *Dealer Member* must handle all client complaints as required in Rule 3700.

(4) Rule 3700 is divided into the following parts:

Part A – Reporting requirements
[sections 3702 through 3704]

Part B – Internal investigations and internal discipline
[sections 3706 through 3708]

Part C – Settlement agreements
[sections 3710 and 3711]

Part D – Client complaints – Institutional Clients
[section 3715]

Part E – Client complaints – Retail Clients
[sections 3720 through 3728]

Part F – Legal actions
[section 3780]

Part G – Record retention requirements
[sections 3785 and 3786]

PART A – REPORTING REQUIREMENTS

3702. Reporting by an Approved Person to the Dealer Member

(1) An *Approved Person* must report to the *Dealer Member* any of the following matters within two *business days*:

(i) if there is a change in the *Approved Person's* registration information or Form 33-109F4,

(ii) if the *Approved Person* has reason to believe that he or she has or may currently be contravening any ~~*IIROC*~~*Corporation requirements*, *securities laws,* or any *applicable laws*,

(iii) if the *Approved Person* is the subject of a written client complaint, or

(iv) if the *Approved Person* becomes aware of a client complaint, in writing or other form, about another *Approved Person* involving allegations of theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading.

(2) An *Approved Person* must inform the *Dealer Member* of all pending legal actions against the *Approved Person*.

(3) A *Dealer Member* must designate an *individual* or department to receive, and maintain *records* of, the reports required by subsection 3702(1).

3703. Reporting by a Dealer Member to ~~IIROC~~the Corporation

(1) For purposes of this section 3703, a "cybersecurity incident" includes any act to gain unauthorized access to, disrupt or misuse a *Dealer Member's* information system, or information stored on such information system, that has resulted in, or has a reasonable likelihood of resulting in:

(i) substantial harm to any *person*,

(ii) a material impact on any part of the normal operations of the *Dealer Member*,

(iii) invoking the *Dealer Member's* business continuity plan or disaster recovery plan, or

(iv) the *Dealer Member* being required under any *applicable laws* to provide notice to any government body, *securities regulatory authority* or other self-regulatory organization.

(2) A *Dealer Member* must report to ~~*IIROC*~~the *Corporation* any of the following matters, within the time period and using the method prescribed by ~~*IIROC*~~the *Corporation*:

(i) all client complaints, against the *Dealer Member* or any current or former *Approved Person*, except service complaints. For the purpose of clause 3703(2)(i), a service complaint by a client is one that is related to service issues and is not the subject of any domestic or foreign *securities laws*,

(ii) whenever an internal investigation is commenced by the *Dealer Member* in accordance with section 3706,

(iii) the results of the internal investigation under clause 3703(2)(ii),

(iv) any time the *Dealer Member*, or a current or former *Approved Person* is subject to one of the following in any jurisdiction inside or outside of Canada, while in the employ of the *Dealer Member* or concerning matters that occurred while in the employ of the *Dealer Member*:

(a) charged with, convicted of, plead guilty or no contest to, any criminal offence,

(b) named as a defendant or respondent in, or is the subject of, any proceeding or disciplinary action alleging contravention of any *securities laws*,

(c) named as a defendant or respondent in, or is the subject of any proceeding or disciplinary action alleging contravention of the requirements or policies of any regulatory or self-regulatory organization, professional licensing or registration body,

(d) denial of registration or license by any regulatory or self-regulatory organization, professional licensing or registration body, or

(e) subject to a civil claim or arbitration notice involving any of the following:

(I) any matters related to securities,

(II) any matter related to handling of client accounts or dealings with clients, or

(III) any matter that is the subject of any legislation, rules, regulations, or policies concerning securities, exchange contracts or financial services of any securities or financial services regulatory or self-regulatory organization in any jurisdiction,

(v) the resolution of any matters set out in clause 3703(2)(iv),

(vi) any internal disciplinary action that is taken by a *Dealer Member* against an *Approved Person* as a result of:

(a) a client complaint within the meaning of clause 3703(2)(i),

(b) a securities related civil claim or arbitration notice,

(c) an internal investigation,

(d) a *Dealer Member* initiated disciplinary action imposing suspension, termination, demotion, or trading restrictions on the *Approved Person*, or

(e) a *Dealer Member* initiated disciplinary action not involving any of the matters listed in sub-clauses 3703(1)(vi)(a) through 3703(1)(vi)(c), which results in a monetary penalty:

(I) over $5,000 for a single occurrence,

(II) over $15,000 in total in a calendar year, or

(III) imposed three times or more in a calendar year, and

(vii) any *cybersecurity incident*, in writing,

(a) within three calendar days from discovering a *cybersecurity incident*, and must include the following information:

~~(I)~~ (I) a description of the *cybersecurity incident*,

~~(II)~~ (II) the date on which or time period during which the *cybersecurity incident* occurred and the date it was discovered by the *Dealer Member*,

~~(III)~~ (III) a preliminary assessment of the *cybersecurity incident*, including the risk of harm to any *person* and/or impact on the operations of the *Dealer Member*,

~~(IV)~~ (IV) a description of immediate incident response steps the *Dealer Member* has taken to mitigate the risk of harm to *persons* and impact on its operations, and

~~(V)~~ (V) the name of and contact information for an *individual* who can answer, on behalf of the *Dealer Member*, any of ~~*IIROC*~~the *Corporation's* follow-up questions about the *cybersecurity incident*,

(b) within 30 calendar days, unless otherwise agreed by ~~*IIROC*~~the *Corporation*, from discovering a *cybersecurity incident*, and must include the following information:

~~(I)~~ (I) a description of the cause of the *cybersecurity incident*,

~~(II)~~ (II) an assessment of the scope of the *cybersecurity incident*, including the number of *persons* harmed and the impact on the operations of the *Dealer Member*,

~~(III)~~ (III) details of the steps the *Dealer Member* took to mitigate the risk of harm to *persons* and impact on its operations,

~~(IV)~~ (IV) details of the steps the *Dealer Member* took to remediate any harm to any *persons*, and

~~(V)~~ (V) actions the *Dealer Member* has or will take to improve its *cybersecurity incident* preparedness.

3704. Failure to report

(1) Failure to report, as required by sections 3702 and 3703, may result in ~~*IIROC*~~the *Corporation* imposing an administrative fee, or other penalties that are permitted under ~~*IIROC*~~*Corporation requirements*, against the *Dealer Member* or *Approved Person*.

3705. Reserved.

PART B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE

3706. Requirement to commence an internal investigation

(1) A *Dealer Member* must conduct an internal investigation if it appears that the *Dealer Member* or a current or former *Approved Person* while employed by the *Dealer Member* engaged in any of the following types of activities in any jurisdiction inside or outside of Canada:

(i) theft,

(ii) fraud,

(iii) misappropriation of funds or securities,

(iv) forgery,

(v) money laundering,

(vi) market manipulation,

(vii) insider trading,

(viii) misrepresentation, or

(ix) unauthorized trading.

(2) For the purpose of clause 3706(1)(viii), a misrepresentation means:

(i) an untrue statement of facts, or

(ii) an omission to state a fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

3707. Records of an internal investigation

(1) The *Dealer Member* must maintain *records* showing the:

(i) cause of,

(ii) steps taken, and

(iii) results,

of each internal investigation in accordance with section 3803.

3708. Internal discipline

(1) A *Dealer Member*'s policies and procedures must establish procedures for any breach of ~~*IIROC*~~*Corporation requirements* or any *securities laws* to be subject to appropriate disciplinary measures.

3709. Reserved.

PART C – SETTLEMENT AGREEMENTS

3710. Entering into settlement agreements

(1) An *Approved Person* must obtain the *Dealer Member's* written consent before entering into any settlement agreement with a client, regardless of the form of the settlement and regardless of whether the settlement is the result of a client complaint or a finding by the *Approved Person* or the *Dealer Member*.

(2) A *Dealer Member* must keep a record of the prior written consent in accordance with section 3803.

(3) Subsection 3710(1) does not apply to settlement agreements entered into by an *employee* or *Approved Person* who is authorized by the *Dealer Member* to negotiate or enter into settlement agreements in the normal course of his/her duties and does not arise out of the activities involving the *Approved Person*.

3711. Release

(1) A release entered into between a *Dealer Member* and a client may not impose confidentiality or similar restrictions aimed at preventing a client from initiating a complaint to the *securities regulatory authorities*, *SROs* or other enforcement authorities, or continuing with any pending complaint in progress, or participating in any further proceedings by such authorities.

3712. – 3714. Reserved.

PART D – CLIENT COMPLAINTS – INSTITUTIONAL CLIENTS

3715. Policies and procedures

(1) The *Dealer Member*'s policies and procedures must specifically address dealing effectively with *institutional client* complaints received.

(2) The *Dealer Member's* policies and procedures must specifically address the following:

(i) the *Dealer Member* must acknowledge all written and verbal *institutional client* complaints,

(ii) the *Dealer Member* must convey the results of its investigation, if any, of a complaint to the *institutional client* in due course,

(iii) the *Dealer Member* must ensure that the *Approved Person* and their *Supervisor* is aware of all *institutional client* complaints filed against the *Approved Person*,

(iv) the *Dealer Member* must ensure that all allegations of serious misconduct are reported to an appropriate *Executive*, and

(v) complaints are to be handled by a *Supervisor* and a copy must be filed with the compliance department/function (or the equivalent) of the *Dealer Member.*

(3) If the *Dealer Member* determines that the number or severity of complaints is significant, or when a *Dealer Member* detects frequent and repetitive complaints made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the *Dealer Member* must:

(i) review its internal policies and procedures, and

(ii) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3716. – 3719. Reserved.

PART E – CLIENT COMPLAINTS – RETAIL CLIENTS

3720. Retail client complaints

(1) A *Dealer Member* must establish and maintain policies to deal effectively with both:

(i) *retail client* complaints alleging misconduct, and

(ii) *retail client* complaints that do not allege misconduct.

(2) A *Dealer Member* must provide a written response to any *retail client* complaint that is submitted in the form specified in section 3721.

3721. Application

(1) Part E of Rule 3700 applies to complaints submitted by a *retail client* or a *person* authorized to act on behalf of a *retail client* in the following form:

(i) a recorded expression of dissatisfaction with a *Dealer Member* or *employee* or *agent* alleging misconduct, or

(ii) a verbal expression of dissatisfaction with the *Dealer Member* or *employee* or *agent* alleging misconduct where a preliminary investigation indicates that the allegation may have merit.

(2) For the purpose of subsections 3720(1) and 3721(1), alleged misconduct includes, but is not limited to:

(i) allegations of breach of confidentiality,-theft, fraud,-misappropriation or misuse of funds or securities, forgery,-unsuitable investments,-misrepresentation, or unauthorized trading relating to the client's account,

(ii) other inappropriate financial dealings with clients, or

(iii) engaging in *Dealer Member related activities* outside of the *Dealer Member*.

(3) Any matter which is the subject of a civil action or arbitration is not considered to be a complaint for the purpose of section 3721.

3722. Handling client complaints

(1) Complaints must be handled by supervisory or compliance staff and a copy of the complaint must be filed with the compliance department or function (or the equivalent) of the *Dealer Member*.

(2) The *Dealer Member* must appoint an *individual* to act as the designated complaints officer. The *individual* must have the requisite experience and authority to oversee the complaint handling process and to act as a liaison with ~~*IIROC*~~the *Corporation*.

3723. Complaint policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address dealing effectively, fairly and expeditiously with complaints.

(2) A *Dealer Member's* policies and procedures must specfically address:

(i) procedures for a fair and thorough investigation of complaints,

(ii) a process for assessing the merits of complaints,

(iii) the process to be followed in determining what offer should be made to the client, where the complaint is assessed to have merit,

(iv) a description of remedial actions which may be appropriate to be taken within the firm,

(v) a procedure that will ensure that complaints are not dismissed without proper consideration of the facts of each case,

(vi) a balanced approach to dealing with complaints that objectively considers the interests of the complainant, the *Dealer Member,* including the *employees, Approved Persons* or other relevant parties,

(vii) a process that ensures that the relevant *employees, Approved Persons* and their *Supervisors* are made aware of all complaints filed by their clients,

(viii) procedures to inform an appropriate *Executive* of any serious misconduct, and

(ix) procedures to monitor the general nature of the complaints.

(3) If a *Dealer Member* determines that the number or severity of complaints is significant, or when a *Dealer Member* detects frequent and repetitive complaints made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, the *Dealer Member* must:

(i) review its internal procedures and practices, and

(ii) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3724. Client access

(1) At the time of account opening, a *Dealer Member* must provide each new client with:

(i) a written summary of the *Dealer Member's* complaint handling procedures, which is clear and can be easily understood by the client, and

(ii) a copy of the complaint handling process brochure, approved by ~~*IIROC*~~the *Corporation*.

(2) A *Dealer Member* must make available to its clients, on an ongoing basis, a written summary of the *Dealer Member's* complaint handling procedures which may be made available either on the *Dealer Member's* website or by other means.

3725. Complaint acknowledgement letter

(1) The *Dealer Member* must send an acknowledgement letter to the complainant within five *business days* of receipt of a complaint.

(2) The acknowledgement letter in subsection 3725(1) must include the following:

(i) the name, job title and full contact information of the *individual* at the *Dealer Member* handling the complaint,

(ii) a statement indicating that the client should contact the *individual* at the *Dealer Member* handling the complaint if he/she would like to inquire about the status of the complaint or provide the *Dealer Member* with any additional information,

(iii) an explanation of the *Dealer Member's* internal complaint handling process, including but not limited to the role of the designated complaints officer,

(iv) a reference to an attached copy of ~~*IIROC*~~the *Corporation* approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,

(v) the 90 days time line to provide a substantive response to complainants, and

(vi) a statement informing the client that the *Dealer Member* may request additional information, from time to time, to investigate the complaint.

3726. Response to client complaints

(1) The *Dealer Member* must send a substantive response letter to each complainant.

(2) The substantive response letter must be accompanied by a copy of the complaint handling process brochure approved by ~~*IIROC*~~the *Corporation*.

(3) The substantive response letter must be presented in a manner that is fair, clear and not misleading to the client, and must include the following information:

(i) a summary of the complaint,

(ii) the result of the *Dealer Member's* investigation,

(iii) the *Dealer Member's* final decision on the complaint, including an explanation, and

(iv) a statement describing to the client the options available if the client is not satisfied with the *Dealer Member's* response, including the availability of:

(a) arbitration,

(b) litigation/civil action,

(c) submitting a complaint to ~~*IIROC*~~the *Corporation*,,

(d) the ombudsman service, if a request is made within the period required by the ombudsman,

(e) an internal ombudsman service offered by an *affiliate* of the *Dealer Member*, if any, with an explanation that:

(I) the use of the internal ombudsman process is voluntary, and

(II) the estimated length of time the process is expected to take based on historical data, and

(f) any other applicable options.

(4) A *Dealer Member* must respond to each client complaint as soon as possible and not later than 90 days from the date of receipt of the complaint subject to the following:

(i) the 90 days time line must include all internal processes of the *Dealer Member* that are made available to the client, other than the internal ombudsman process offered by an *affiliate* of the *Dealer Member*,

(ii) the *Dealer Member* must inform the client if the *Dealer Member* is unable to provide the client with a final response within the 90 days time line and must include the reasons for the delay and the new estimated time of completion, and

(iii) the *Dealer Member* must inform ~~*IIROC*~~the *Corporation* if the *Dealer Member* is unable to meet the 90 days time line and must provide reasons for the delay.

3727. Duty to assist in client complaint resolution

(1) If an *Approved Person* moves to a different *Dealer Member* after a complaint has been made against the *Approved Person*, the *Approved Person* must continue to co-operate with the *Dealer Member* where they were employed or acted as an *agent* until the complaint has been resolved.

(2) *Dealer Members* must co-operate with each other if events relating to a complaint took place at more than one *Dealer Member* or if the *Approved Person* is an *employee* or *agent* of another *Dealer Member* that is not involved in the events relating to the complaint.

3728. Client complaint file

(1) A *Dealer Member* must retain the following information in accordance with section 3786 for each client complaint:

(i) the complainant's name,

(ii) the date of the complaint,

(iii) the nature of the complaint,

(iv) the name of the *individual* who is subject of the complaint,

(v) the securities *o*r services which are the subject of the complaint,

(vi) the materials reviewed in the investigation,

(vii) the name, title and date *individuals* were interviewed for the investigation, and

(viii) the date and conclusion of the decision rendered in connection with the complaint.

3729. – 3779. Reserved.

PART F – LEGAL ACTIONS

3780. Reporting legal actions

(1) All legal actions against the *Dealer Member* must be reported to an appropriate *Executive* of the *Dealer Member*.

3781. – 3784. Reserved.

PART G – RECORD RETENTION REQUIREMENTS

3785. Matters reported to ~~IIROC~~the Corporation

(1) A *Dealer Member* must maintain, and make available to ~~*IIROC*~~the *Corporation* upon request, copies of all documents associated with matters reported to ~~*IIROC*~~the *Corporation* under section 3703 for a minimum of seven years from the date of resolution of the matter.

3786. Client complaints

(1) A *Dealer Member* must keep an up-to-date record of all client complaints and associated documentation relating to the conduct, business and affairs of the *Dealer Member*, or an *employee* or *agent* of the *Dealer Member*, in a central and readily accessible place for a period of two years from the date of receipt of a client complaint.

(2) For each client complaint file, a *Dealer Member* must maintain a copy for seven years in a location that is retrievable within a reasonable period of time.

3787. – 3799. Reserved.

RULE 3800 | DEALER MEMBER RECORDS AND CLIENT COMMUNICATIONS

3801. Introduction

(1) Maintaining complete and accurate *records* is a fundamental responsibility of a *Dealer Member.* A *Dealer Member's records* provide an audit trail to support the *Dealer Member's* supervision of its business and are necessary to prepare regulatory financial reports and to report accurately to clients.

3802. Definitions

(1) The following terms have the meaning set out below when used in Rule 3800:

"book cost"	In the case of: (i) a long security position, the total amount paid for the security, including any *transaction charges* related to the purchase, adjusted for reinvested distributions, returns of capital and corporate actions, or (ii) a short security position, the total amount received for the security, net of any *transaction charges* related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate actions.
"connected issuer"	The same meaning as ascribed to it in *securities laws*
"cost"	For each security position in the account and each security position subject to the additional reporting obligation under section 3809: (i) on or after December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) in the case of security positions that are transferred in, either: (I) the amount determined in sub-clause (i)(a) of this definition, or (II) the *market value* of the security position as at the date of transfer, provided that the following notification or a notification that is substantially similar identifies each security position where *market value* has been used is included in the statement or report: "Market value information has been used to estimate part or all of the [book cost/original cost] of this security position." (ii) before December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) the *market value* of the security position as at December 31, 2015 or an earlier date, provided that the following notification or a notification that is substantially similar identifies each

	security position where *market value* has been used is included in the statement or report: "Market value information as at [December 31, 2015 or earlier date] has been used to estimate part or all of the [book cost/original cost] of this security position." (iii) where the *Dealer Member* reasonably believes it cannot determine the *cost* in accordance with clause (i) and sub-clause (ii)(b) of this definition, the *Dealer* must include the following notification or a notification that is substantially similar: "The [book cost/original cost] of this security position cannot be determined."
"market value"	For securities, precious metals bullion and *futures contracts*: (i) that are quoted on an active market, the published price quotation using: (a) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, (b) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date, (c) for all other unlisted securities (including unlisted *debt securities*) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of *debt securities*, based on a reasonable yield rate, (d) for *futures contracts*, the settlement price on the relevant date or last trading day prior to the relevant date, (e) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date, (f) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in sub-clause (i)(e) of this definition and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and (g) for money market repurchases with borrower call features, the borrower call price, and after making any adjustments considered by the *Dealer Member* to be necessary to accurately reflect the market value, (ii) where a reliable price cannot be determined: (a) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly, or

	(b) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or (c) where insufficient recent information is available or there is a wide range of possible values and *cost* represents the best value estimate within that range, *cost* and the *Dealer Member* must include the following notification or a notification that is substantially similar: "There is no active market for this security so we have estimated its market value." (iii) where a value cannot be reliably determined under clauses (i) and (ii) of this definition, no value shall be reported and the *Dealer Member* must include the following notification or a notification that is substantially similar: "Market value not determinable."
"operating charge"	Any amount charged to a client by a *Dealer Member* in respect of the operation, transfer or termination of a client's account and includes any taxes paid on that amount.
"original cost"	In the case of: (i) a long security position, the total amount paid for the security, including any *transaction charges* related to the purchase, or (ii) a short security position, the total amount received for the security, net of any *transaction charges* related to the sale.
"outside holdings"	The client positions for which the *Dealer Member* is the 'dealer of record' that are neither held at or under the control of the *Dealer Member*.
"related issuer"	The same meaning as ascribed to it in *securities laws*.
"total percentage return"	The cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.
"trailing commission"	Any payment related to a client's ownership of a security that is part of a continuing series of payments to a *Dealer Member* by any party.
"transaction charge"	Any amount charged to a client by a *Dealer Member* in respect of a purchase or sale of a security and includes any taxes paid on that amount.

3803. General requirements for record retention periods

(1) A *Dealer Member* must retain copies of all *records* in a safe location required under ~~*IIROC*~~*Corporation requirements*, in durable and accessible form, for a minimum of seven years from the date the *record* is created unless ~~*IIROC*~~*Corporation requirements* or *securities laws* relating to the specific type of *record* require a different retention period.

3804. General requirements to maintain records

(1) A *Dealer Member* must maintain current *records* that:

(i) properly record its business activities, financial position, financial operating results and client transactions, and

(ii) demonstrate the *Dealer Member's* compliance with *securities laws* and ~~*IIROC*~~*Corporation requirements*.

(2) The *records* required under subsection 3804(1) include, but are not limited to, *records* that do the following:

(i) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to ~~*IIROC*~~the *Corporation* or the applicable *securities regulatory authority*,

(ii) permit determination of the *Dealer Member's* capital position,

(iii) demonstrate compliance with the *Dealer Member's* capital and insurance requirements,

(iv) demonstrate compliance with internal control procedures,

(v) demonstrate compliance with the *Dealer Member's* policies and procedures,

(vi) permit the identification and *segregation* of client cash, securities, and other property,

(vii) identify all transactions conducted on behalf of the *Dealer Member* and each of its clients, including the parties to the transaction and the terms of the purchase or sale,

(viii) provide an audit trail for:

(a) client instructions and orders, and

(b) each trade transmitted or executed for a client or by the *Dealer Member* on its own behalf,

(ix) permit the generation of account activity reports for clients,

(x) provide securities pricing as may be required by *securities laws*,

(xi) document the opening of client accounts, including any agreements with clients and evidence that account related documents required by ~~*IIROC*~~*Corporation requirements* have been provided to clients,

(xii) demonstrate compliance with know-your-client, account appropriateness, product due diligence, know-your-product and suitability determination requirements,

(xiii) demonstrate compliance with complaint handling requirements,

(xiv) document *correspondence* with clients,

(xv) document compliance, training, and and supervision actions taken by the *Dealer Member*,

(xvi) demonstrate compliance with conflicts of interest requirements,

(xvii) document

(a) the *Dealer Member's* sales practices, compensation arrangements and incentive practices, and

(b) other compensation arrangements and incentive practices from which the *Dealer Member* or its *Approved Persons*, or any *affiliate* or *associate* of that *Dealer Member*, benefit, and

(xviii) demonstrate compliance with misleading communications requirements, and

(xix) demonstrate compliance with the conditions for *temporary holds*.

(3) A *Dealer Member* must maintain appropriate *internal controls* to provide reasonable assurance that its *records*:

(i) are correct,

(ii) provide clear and accurate information, and

(iii) remain current.

(4) A *Dealer Member* must make its *records* available to ~~*IIROC*~~the *Corporation* on request, in the manner requested by ~~*IIROC*~~the *Corporation*.

(5) A *Dealer Member* must provide ~~*IIROC*~~the *Corporation* with statistical or other information with respect to the *Dealer Member's* business that ~~*IIROC*~~the *Corporation* may request from time to time, acting reasonably. Such information must be provided as soon as practicable following ~~*IIROC*~~the *Corporation's* request.

3805. Trade blotters (records of original entry)

(1) A *Dealer Member* must maintain blotters or other *records* of original entry by itemizing daily, the following:

(i) all purchases and sales of securities,

(ii) all receipts and deliveries of securities (including certificate numbers),

(iii) all trades in *futures contracts* and *futures contract options*,

(iv) all receipts and disbursements of cash, and

(v) all other debits and credits.

(2) The blotters or *records* of original entry must contain, at a minimum, the following:

(i) in the case of trades in securities:

(a) the name, class and designation of securities,

(b) the number, value or amount of securities and the unit and aggregate purchase or sale price (if any),

(c) the name or other designation of the *person* from whom the securities were purchased or received or to whom they were sold or delivered,

(d) the trade dates, and

(e) the applicable account in which each transaction was effected,

(ii) in the case of trades in *futures contracts*:

(a) the commodity and quantity bought or sold,

(b) the delivery month and year,

(c) the price at which the contract was entered into,

(d) the futures exchange,

(e) the name of the dealer if any, used by the *Dealer Member* as its *agent* to effect the trade,

(f) the trade dates,

(g) the applicable account in which each transaction was effected, and

(h) whether the transactions are opening or closing transactions (where required by the marketplace), and

(iii) in the case of trades in *futures contract options*:

(a) the type and number,

(b) the premium,

(c) the *futures contract* that is the subject of the *futures contract option*,

(d) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*,

(e) the declaration date,

(f) the striking price,

(g) the futures exchange,

(h) the name of the dealer, if any, used by the *Dealer Member* as its *agent* to effect the trade,

(i) the trade dates,

(j) the applicable account in which each transaction was effected, and

(k) whether the transactions are opening or closing transactions (where required by the marketplace).

3806. General ledger of accounts

(1) A *Dealer Member* must maintain a general ledger (or other *records*) with an itemized account detail of all assets, liabilities, income, expense and capital accounts.

3807. Itemized client ledger accounts

(1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other trades of securities, *futures contracts* and *futures contract options* for such account and all other debits and credits to such account.

(2) When a *Dealer Member* receives securities and property to margin, *guarantee*, or secure the trades or contracts of a client's account, the ledger must contain, at a minimum, the following:

(i) a description of the securities or property received,

(ii) the date when received,

(iii) the identity of any deposit institution where such securities or property are *segregated*,

(iv) the dates of deposit and withdrawal from such institutions, and

(v) the date of return of such securities or property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.

(3) When a *Dealer Member* invests the money, proceeds or funds *segregated* for the benefit of its clients, the ledger must contain, at a minimum, the following:

(i) the date of the transaction,

(ii) the identity of the *person* or company through or from whom such securities were purchased,

(iii) the amount invested,

(iv) a description of the securities invested in,

(v) the identity of the deposit institution, other dealer or dealer registered under any *securities laws* where such securities are deposited,

(vi) the date of liquidation or other disposition and the money received on such disposition, and

(vii) the identity of the *person* or company to or through whom such securities were disposed.

3808. Client account statements

(1) A *Dealer Member* must send a monthly statement to each client who:

(i) requests to receive a client account statement on a monthly basis, or

(ii) at the end of the month has:

(a) had a transaction during the month,

(b) has experienced a cash or security modification, other than dividend or interest payments,

(c) an unexpired and unexercised *futures contract option* position, or

(d) an open *futures contract*, or exchange contract position,

in their account.

(2) A *Dealer Member* must send a quarterly statement to each client who, at the end of the quarter has:

(i) a debit or credit balance, or

(ii) one or more security positions (including securities held in *safekeeping* or in *segregation*),

in their account.

(3) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:

(i) the opening cash balance in the account,

(ii) all deposits, credits, withdrawals and debits made to the account,

(iii) the closing cash balance in the account,

(iv) the name and quantity of each security position in the account,

(v) for each security position in the account:

(a) where the *market value* is determinable:

(I) the *market value*,

(II) the total *market value*, and

(III) if applicable, the notification required pursuant to clause (ii) of the definition of *market value* in subsection 3802(1)

(b) where the *market value* is not determinable, the notification required pursuant to clause (iii) of the definition of *market value* in subsection 3802(1),

(vi) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:

(a) for each security position in the account:

(I) where the *cost* is determinable, either the *cost* or the total *cost*, and

(II) where the *cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1),

and

(b) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided

that where the individual position *cost* information included in the statement is calculated using:

(I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and

(II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(vii) the total *market value* of all cash and security positions in the account, and

(viii) where the client is a *retail client* and the statement is a quarterly statement, the total *cost* of all cash and security positions in the account.

(4) In the case of clients with any security positions which might be subject to a deferred sales charge if they are sold, a notation identifying each security position that might be subject to a deferred sales charge.

(5) In the case of clients with any unexpired and unexercised *futures contract options*, open *futures contracts*, or exchange contracts, the monthly statement must contain, at a minimum, the following:

(i) each unexpired and unexercised *futures contract option*,

(ii) the striking price of each unexpired and unexercised *futures contract option*,

(iii) each open *futures contract*, and

(iv) the price at which each open *futures contract* was entered into.

(6) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating trade in a *futures contract*, the monthly statement must contain, at a minimum, the following:

(i) the dates of the initial transaction and liquidating trade,

(ii) the commodity and quantity bought and sold,

(iii) the futures exchange upon which the contract was traded,

(iv) the delivery month and year,

(v) the prices on the initial transaction and on the liquidating trade,

(vi) the gross profit or loss on the transactions,

(vii) the commission, and

(viii) the net profit or loss on the transactions.

(7) In the case of transactions involving securities of the *Dealer Member* or a *related issuer* of the *Dealer Member*, or in the course of a distribution to the public, securities of a *connected issuer* of the *Dealer Member*, the monthly statement must state that the securities are securities of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

(8) If a *Dealer Member* does not deposit clients' *free credit balances* in a trust bank account, the client statement must include the following notation:

"Any free credit balances (except for RRSP funds held in trust) represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."

3809. Report on client positions held outside of the Dealer Member

(1) A *Dealer Member* must send a quarterly report on *outside holdings* (report to be called "Report on client positions held outside of the *Dealer Member")* to each *retail client* who, at the end of the quarter holds outside of the *Dealer Member's* control, either in book-based client name or physical client name, one or more positions:

(i) in securities issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under *applicable laws* and the *Dealer Member* is the dealer of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager, and

(ii) in any other security on which the *Dealer Member* receives continuing compensation payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party.

(2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made:

(i) the name and quantity of each security position,

(ii) for each security position:

(a) where the *market value* is determinable:

(I) the *market value,*

(II) the total *market value*, and

(III) if applicable, the notification required pursuant to clause (ii) of the definition of *market value* in subsection 3802(1), and

(b) where the *market value* is not determinable, the notification required pursuant to clause (iii) of the definition of *market value* in subsection 3802(1),

(iii) for each security position:

(a) where the *cost* is determinable, either the *cost* or the total *cost*, and

(b) where the *cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1),

(iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided that where the individual position *cost* information included in the statement is calculated using:

(a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and

(b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(v) the total *market value* of all security positions,

(vi) the total *cost* of all security positions, and

(vii) the name of the party that holds or controls each security position and a description of the way it is held.

(3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each security position that might be subject to a deferred sales charge.

(4) The report must indicate:

(i) that the client's *outside holdings* are not covered by the *Canadian Investor Protection Fund*, and

(ii) whether the securities are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority* and, if they are, the name of the fund.

3810. Performance report

(1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:

(i) an account with:

(a) a debit or credit balance, or

(b) one or more security positions (including securities held in *safekeeping* or in *segregation*), or

(ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,

and

(iii) there is at least one security in the account or at least one *outside holding* for which quarterly reporting pursuant to section 3809 is required, for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 3802(1),

and

(iv) the client's account was opened at least 12 months ago.

(2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) the total combined *market value* of all cash and security positions:

(a) as at July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, as at the account opening date,

(b) as at the beginning date of the 12-month period covered by the report, and

(c) as at the end date of the report,

(ii) the total combined *market value* of all deposits and transfers in of cash and security positions:

(a) in the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date, to the end date of the report, and

(b) in the 12-month period covered by the report,

(iii) the total combined *market value* of all withdrawals and transfers out of cash and security positions:

(a) In the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, and

(b) In the 12-month period covered by the report,

(iv) the total combined change in *market value* of all cash and security positions:

(a) for the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, determined using the following formula:

Total *market value* change from account opening

= Closing *market value*

[Sub-clause 3810(2)(i)(c)]

- Account opening *market value*

[Sub-clause 3810(2)(i)(a)]

-Deposits and transfers in

[Sub-clause 3810(2)(ii)(a)]

+ Withdrawals and transfers out

[Sub-clause 3810(2)(iii)(a)], and

(b) for the 12-month period covered by the report, determined using the following formula:

Total 12-month *market value* change

= Closing *market value*

[Sub-clause 3810(2)(i)(c)]

- Account opening *market value*

[Sub-clause 3810(2)(i)(b)]

- Deposits and transfers in

[Sub-clause 3810(2)(ii)(b)]

+ Withdrawals and transfers out

[Sub-clause 3810(2)(iii)(b)],

(v) the amount of the annualized *total percentage return* calculated net of charges using a money weighted rate of return calculation methodology generally accepted in the securities industry for the following periods:

(a) the 12-month period covered by the report,

(b) the three-year period preceding the end date of the report,

(c) the five year period preceding the end date of the report,

(d) the 10 year period preceding the end date of the report, and

(e) the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report,

provided that if any portion of a period referred to in sub-clauses 3810(2)(v)(b), 3810(2)(v)(c) and 3810(2)(v)(d) is before July 15, 2015, the *Dealer Member* is not required to report the annualized *total percentage return* for that period, and

(vi) the definition of *total percentage return* as set out in subsection 3802(1) and a notification indicating the following:

(a) the *total percentage return* presented in the performance report was calculated net of fees / charges,

(b) the calculation method used, and

(c) a general explanation in plain language of what the calculation method takes into account.

(3) The combined information required to be provided under subsection 3810(2) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining:

(i) the content of the report and how a client can use the information to assess the performance of the client's investments, and

(ii) the changing value of the client's investments as reflected in the information in the report.

(4) The *Dealer Member* must send a performance report containing the combined information required to be provided under subsection 3810(2) to a client every 12 months, except that:

(i) the first performance report sent after a *Dealer Member* opens an account for a client may be sent within 24 months, and

(ii) any performance report sent to a client that covers the 12-month period ending on December 31, 2016 is not required to include in the report the information set out in:

(a) sub-clauses 3810(2)(i)(a), 3810(2)(ii)(a), 3810(2)(iii)(a) and 3810(2)(iv)(a) [Prior period comparative account activity information], and

(b) sub-clauses 3810(2)(v)(b) through 3810(2)(v)(e) [Prior period comparative percentage return information], and

(iii) where a performance report that covers the 12-month period ending on December 31, 2016 is sent to the client pursuant to clause 3810(4)(ii), all subsequent performance reports for the 12-month periods ending on December 31, 2017 and each calendar year thereafter may include:

(a) the information required by sub-clauses 3810(2)(i)(a), 3810(2)(ii)(a), 3810(2)(iii)(a) and 3810(2)(iv)(a) [Prior period comparative account activity information] as at or for the period commencing January 1, 2016, as applicable, and

(b) the information required by sub-clauses 3810(2)(v)(b) through 3810(2)(v)(e) [Prior period comparative percentage return information] provided that if any portion of a period referred to in sub-clauses 3810(2)(v)(b), 3810(2)(v)(c), and 3810(2)(v)(d), is

before January 1, 2016, the *Dealer Member* is not required to report the annualized *total percentage return* for that period.

(5) For the purposes of this section 3810, the information in respect of securities of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.

(6) For the purposes of this section 3810, the information in respect of securities of a client required to be reported under section 3809 must be included in the report for each of the client's accounts through which the securities were transacted.

(7) Subsections 3810(5) and 3810(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any securities of a client required to be reported under section 3809 provided:

(i) the client has consented in writing to receiving a consolidated report,

and

(ii) the report that is sent specifies the accounts and securities for which the consolidated information is being provided.

(8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3810(7), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and securities,

as the annual fee/charge reports that are sent to the same client.

3811. Fee/charge report

(1) A *Dealer Member* must send a fee/charge report to each *retail client* who, at the end of the 12-month period covered by the report or a shorter period in the case of the first report delivered after a client has opened an account, has:

(i) an account, or

(ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,

and

(iii) paid a fee, charge or other payment, including payments referred to in clauses 3811(2)(viii) and 3811(2)(ix), either directly or indirectly, to the *Dealer Member* or any of its registered *individuals* during the period covered by the report.

(2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) a discussion of the *operating charges* which might be applicable to the client's account,

(ii) the total amount of each type of *operating charge* related to the client's account paid by the client during the period covered by the report,

(iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the period covered by the report,

(iv) the total amount of each type of *transaction charge* related to the purchase or sale of securities paid by the client during the period covered by the report,

(v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the period covered by the report,

(vi) the aggregate total amount of all charges reported under clauses 3811(2)(iii) and 3811(2)(v),

(vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:

(a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,

(b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of *debt securities*, the following notification or a notification that is substantially similar:

> "For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price your received (in the case of a sale). This amount was in addition to any commissions you were charged.",

(viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by a securities issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and

(ix) if the *Dealer Member* received *trailing commissions* related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

> "We received $[amount] in trailing commissions in respect of securities you owned during the period covered by this report.
>
> Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

(3) For the purposes of this section 3811, the information in respect of securities of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.

(4) For the purposes of this section 3811, the information in respect of *outside holdings* of a client required to be reported under section 3809 must be included in the report for each of the client's accounts through which the securities were transacted.

(5) Subsections 3811(3) and 3811(4) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* of a client required to be reported under section 3809 provided:

(i) the client has consented in writing to receiving a consolidated report, and

(ii) the report that is sent specifies the accounts and securities for which the consolidated information is being provided.

(6) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3811(5), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and securities,

as the annual performance reports that are sent to the same client.

3812. Secondary or subsidiary records

(1) A *Dealer Member* must maintain the following ledgers (or other *records*):

(i) securities in transfer,

(ii) dividends and interest received,

(iii) securities borrowed and securities loaned,

(iv) monies borrowed and monies loaned (together with a *record* of the collateral and any substitutions in such collateral),

(v) securities failed to receive and failed to deliver, and

(vi) money, securities and property received to margin, *guarantee* or secure the trades or contracts of clients, and all funds accruing to clients, which must be *segregated* for the benefit of clients under any *applicable laws.*

3813. Securities record

(1) A *Dealer Member* must maintain a securities *record* or a ledger, for each security as of the trade or settlement dates, of all long and short positions (including securities in *safekeeping*) carried for the *Dealer Member's* account or for the account of clients.

(2) The securities *record* or ledger must contain the following:

(i) the location of all securities long and the offsetting position to all securities short, and

(ii) the name or designation of the account in which each position is carried.

3814. Commodity record

(1) A *Dealer Member* must maintain a commodity *record* or ledger, for each commodity as of the trade date, of all long positions or short positions in *futures contracts* carried for the *Dealer Member's* account or for the account of clients.

(2) The commodity *record* or ledger must contain the name or designation of the account in which each position is carried.

3815. Memoranda of orders

(1) A *Dealer Member* must maintain an adequate *record* of each order or other instruction given or received for all purchases and sales of securities and trades in *futures contract* and *futures contract options*, whether executed or unexecuted, showing at a minimum the following:

(i) the terms and conditions of the order or instruction and of any modification or cancellation thereof,

(ii) the account to which the order or instruction relates,

(iii) the time of entry of the order or instruction and, where the order is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,

(iv) where the order relates to an omnibus account, the component accounts within the omnibus account on whose behalf the order is to be executed, and the allocation among the component accounts intended on execution,

(v) to the extent feasible, the time of execution or cancellation,

(vi) the price at which the order or instruction was executed,

(vii) the time of report of execution, and

(viii) whether the transactions are opening or closing transactions (where required by the marketplace).

(2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order or instruction, if the order or instruction is placed by an *individual* other than:

(i) the account holder, or

(ii) an *individual* authorized in writing to direct orders or instructions for the account.

3816. Trade confirmations

(1) A *Dealer Member* must promptly send the client a written confirmation of all purchases and sales of securities and of all trades in *futures contracts* and *futures contract options*, and copies of notices of all other debits and credits of money, securities, property, proceeds of loans and other items for the client's account.

(2) The written confirmation must contain, at a minimum, the day and the marketplace or marketplaces where the trade took place, or marketplace disclosure language acceptable to ~~*IIROC*~~the *Corporation*; the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade; the name of the salesperson, if any, involved in the transaction; the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, the settlement date of the trade:

and

(i) in the case of trades in securities:

(a) the quantity and description of the security,

(b) the consideration,

(c) whether or not the *person* or company that executed the trade acted as principal or agent, and

(d) must maintain and make available to the client or ~~IIROC~~the *Corporation*, upon request, the name of the *person* or company from or to or through whom the security was bought or sold, if acting as an agent in a trade upon an equity marketplace,

and

(ii) in the case of trades in *futures contracts*:

(a) the commodity and quantity bought or sold,

(b) the price at which the contract was entered into, and

(c) the delivery month and year,

and

(iii) in the case of trades in *futures contract options*:

(a) the type and number of *futures contract options*,

(b) the premium,

(c) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*,

(d) the declaration date, and

(e) the striking price,

and

(iv) in the case of trades in mortgage-backed securities, and subject to the proviso below:

(a) the original principal amount of the trade,

(b) the description of the security (including interest rate and maturity date),

(c) the remaining principal amount (RPA) factor,

(d) the purchase/sale price per $100 of original principal amount,

(e) the accrued interest,

(f) the total settlement amount, and

(g) the settlement date,

provided that in the case of trades entered into from the second *clearing day* before month end to the fifth *clearing day* of the following month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in sub-clauses 3816(2)(iv)(a), 3816(2)(iv)(b), 3816(2)(iv)(d) and 3816(2)(iv)(g) and indicating that the information in sub-clauses 3816(2)(iv)(c), 3816(2)(iv)(e) and 3816(2)(iv)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the security is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required in subsection 3816(2),

and

(v) in the case of confirmations other than confirmations relating to trades involving *debt securities* and other over-the-counter traded securities:

(a) where the confirmation is sent to a *retail client*:

(I) the amount of each *transaction charge*, deferred sales charge or other charge in respect of the transaction, and

(II) the total amount of all charges in respect of the transaction,

(b) where the confirmation is sent to an *institutional client*:

(I) the commission, if any, charged in respect of the transaction,

and

(vi) in the case of *debt securities*:

(a) in the case of a purchase, where the *debt security* is a stripped coupon or a residual debt instrument:

(I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and

(II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other *debt securities* which are commonly regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed,

(b) in the case of a purchase, where the *debt security* is neither a stripped coupon nor a residual debt instrument:

(I) the yield to maturity calculated in a manner consistent with market conventions for the security traded,

(II) where the *debt security* is subject to call prior to maturity through any means, the notation of "callable" must be included, and

(III) where the *debt security* has a variable coupon rate, the notation "The coupon rate may vary." must be included,

(c) where the *debt security* trade is not a primary market transaction and the trade confirmation is being sent to a *retail client*, either of the following:

(I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction, or

(II) the total amount of any commission charged to the client by the *Dealer Member* and, if the *Dealer Member* applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.",

and

(vii) in the case of all over-the-counter traded securities other than *debt securities*, including contracts for difference and foreign exchange contracts, but excluding primary market transactions and over-the-counter *derivatives* with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market, and the trade confirmation is being sent to a *retail client*, either of the following:

(a) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,

(b) the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale).",

and

(viii) in the case of transactions involving securities of the *Dealer Member* or a *related issuer* of the *Dealer Member*, or in the course of a distribution to the public, securities of a *connected issuer* of the *Dealer Member*, such trade confirmation shall state that the securities are securities of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be,

and

(ix) in the case of a *Dealer Member controlled* by or affiliated with a financial institution, the relationship between the *Dealer Member* and the financial institution shall be disclosed on each trade confirmation issued in connection with a trade in securities of a mutual fund sponsored by the financial institution or a corporation *controlled* by or affiliated with the financial institution, except where the names of the *Dealer Member* and the mutual fund are sufficiently similar to indicate that they are *controlled* by or *affiliated* with the same financial institution,

and

(x) notwithstanding the provisions of this section 3816, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of a trade:

(a) in a *managed account*, provided that:

(I) prior to the trade, the client has consented in writing to waive the trade confirmation requirement,

(II) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,

(III) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an exemption from any such *applicable laws* by the responsible *securities regulatory authority*, and

(IV) where:

(A) a *person* other than the *Dealer Member* manages the account:

(i) a trade confirmation has been sent to the manager of the account, and

(ii) the *Dealer Member* complies with section 3808, or

(B) the *Dealer Member* manages the account:

(i) the account is not charged any commissions or fees based on the volume or value of transactions in the account,

(ii) the *Dealer Member* sends to the client a monthly statement that is in compliance with section 3808 and contains all of the information required to be contained in a confirmation under this section 3816 except:

(a) the day and the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to ~~*IIROC*~~the *Corporation*,

(b) the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade,

(c) the name of the salesperson, if any, in the transaction,

(d) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, and

(e) must maintain and make available to the client or ~~*IIROC*~~the *Corporation*, upon request, the name of the *person* or company from or to or through whom the security was bought or sold, if acting as an agent in a trade upon an equity marketplace,

(iii) the *Dealer Member* maintains the information not required to be in the monthly statement pursuant to sub-paragraph 3816(2)(x)(a)(IV)(B)(ii) and discloses to the client on the monthly statement that such information will be provided to the client on request.

(b) In delivery against payment and receipt against payment trade accounts, provided that:

(I) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under ~~*IIROC*~~*Corporation requirements* or *securities laws*,

(II) the *Dealer Member* maintains an electronic audit trail of the trade under ~~*IIROC*~~*Corporation requirements* or *securities laws*,

(III) prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*,

(IV) the client is either:

(A) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or

(B) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,

(V) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3816, and

(VI) for broker-to-broker trade matching, the *Dealer Member* for the last four quarters:

~~(A)~~ (A) has not filed more than two reports under section 4756 informing ~~*IIROC*~~the *Corporation* that it has not met the quarterly compliant trade percentage; and

~~(B)~~ (B) none of the reports it filed under section 4756 informing ~~*IIROC*~~the *Corporation* that it has not met the quarterly compliant trade percentage has a quarterly compliant trade percentage of less than 85%.

~~(VII)~~ (VII) for institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their trade confirmation waiver, referred to in sub-clause 3816(2)(x)(b), by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

3817. Puts, calls and other options

(1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the security and the number of units involved.

3818. Margin call records

(1) A *Dealer Member* must maintain a *record* of all margin calls whether such calls are made in writing, by telephone or other means of communication.

3819. Account transfer records

(1) Pursuant to Part B of Rule 4800, a *Dealer Member* must maintain a *record* of all communications concerning account transfers.

3820. – 3834. Reserved.

3835. Option of earlier date

(1) *Dealer Member*s have the option of providing clients with the following position *cost* and performance information:

(i) position *cost* information included in client account statements [Defintion of *cost* in subsection 3802(1) and clauses 3808(3)(vii) and 3808(3)(ix)],

(ii) position *cost* information included in the report on client positions held outside of the *Dealer Member* [Definition of *cost* in subsection 3802(1) and clauses 3809(2)(iii) and 3809(2)(vi)],

that is prepared as at a date earlier than December 31, 2015.

(2) *Dealer Members* have the option of providing clients with the following position *cost* and performance information:

(i) activity information included in the annual performance report [clauses 3810(2)(i) through 3810(2)(iv)], and

(ii) percentage return information included in the annual performance report [clause 3810(2)(v)],

that is prepared for a period that begins on a date earlier than July 15, 2015.

(3) Where the option in subsection 3835(1) is pursued, all of the position *cost* information referenced in clauses 3835(1)(i) and 3835(1)(ii) must be prepared for all similar clients as at the same date.

(4) Where the option in subsection 3835(2) is pursued, all of the activity and percentage return information referenced in clauses 3835(2)(i) and 3835(2)(ii) must be prepared for all similar clients as at the same date.

3836. – 3844. Reserved.

3845. Timing of the sending of documents to clients

(1) All confirmations, statements, reports and other documents that are required to be sent to clients under sections 3803 through 3819 must be sent promptly to clients.

(2) The following documents must be sent to *retail clients* together:

(i) performance report [section 3810], and

(ii) fee / charge report [section 3811].

(3) The following documents must be sent to *retail clients* within 10 days after the client account statement for the monthly or quarterly period ending on the same date is sent:

(i) report on client positions held outside of the *Dealer Member* [section 3809], and

(ii) performance report and fee/charge report [sections 3810 and 3811].

3846. – 3899. Reserved.

RULE 3900 | SUPERVISION

3901. Introduction

(1) Rule 3900 sets out the *Dealer Member's* obligation to supervise its business and operations. The rule is divided into seven parts as follows:

Part A – General supervision requirements
[sections 3904 through 3918]

Part B – Supervision of all accounts
[sections 3925 through 3927]

Part C – Supervision of retail client accounts
[sections 3945 through 3948]

Part D – Supervision of institutional client accounts
[sections 3950 and 3951]

Part E – Supervision of order execution only accounts
[section 3955]

Part F – Supervision of options, futures contracts and futures contract options trading accounts
[sections 3960 through 3968]

Part G - Supervision of discretionary accounts and managed accounts
[sections 3970 through 3973]

(2) Appropriate supervision of all aspects of a *Dealer Member's* business and operations is a fundamental responsibility of the *Dealer Member*. The *Dealer Member's* policies and procedures that specifically address its supervision system must remain up-to-date at all times, based on current ~~*IIROC*~~*Corporation requirements* and *applicable laws*.

(3) The *Dealer Member's* board of directors is responsible for ensuring that an appropriate supervision system is in place.

3902. – 3903. Reserved.

PART A – GENERAL SUPERVISION REQUIREMENTS

3904. Policies and procedures

(1) A *Dealer Member*'s policies and procedures must establish a supervisory system to supervise the activities of all its *employees* and *Approved Persons* that provides reasonable assurance they comply with ~~*IIROC*~~*Corporation requirements* and *securities laws*.

(2) As part of its supervisory system, the *Dealer Member*, at a minimum, must:

(i) have policies and procedures that specifically address supervision of its *employees* and *Approved Persons*,

(ii) have policies and procedures relating to supervision that provide reasonable assurance of compliance with ~~*IIROC*~~*Corporation requirements*, *securities laws* and *applicable laws,*

(iii) ensure all supervisory policies and procedures are in writing, and

(iv) amend its policies and procedures relating to supervision within a reasonable time after changes in ~~*IIROC*~~*Corporation requirements*, or *securities laws* are made.

(3) A *Dealer Member* must communicate its policies and procedures to all relevant *employees* and *Approved Persons* and must:

(i) provide its sales and supervisory *employees* and *Approved Persons* with the *Dealer Member's* sales practices policies and procedures relevant to their functions,

(ii) obtain and record acknowledgements from all sales and supervisory *employees* and *Approved Persons* that they have read and understood the policies and procedures relevant to their respective roles and responsibilities,

(iii) provide introductory and continuing education to all *Approved Persons* on the *Dealer Member's* policies and procedures and any relevant changes to them,

(iv) communicate information relating to ~~*IIROC*~~*Corporation requirements and applicable laws*, to all sales *employees* and other *Approved Persons* to whom it is relevant,

(v) have policies and procedures that specifically address the method and timing of the distribution of compliance related notices,

(vi) promptly communicate changes in its policies and procedures to all relevant *employees* and *Approved Persons*, and

(vii) have procedures to provide reasonable assurance that each *employee* and *Approved Person* understands their responsibilities under the *Dealer Member's* policies and procedures.

3905. Supervisory personnel and resources

(1) A *Dealer Member* must assign sufficient personnel and commit adequate resources necessary to fully and properly apply and enforce its policies and procedures.

(2) A *Dealer Member* must appoint as many *Supervisors* as necessary to properly supervise its *employees* and *Approved Persons* taking into account the scope and complexity of the *Dealer Member's* business.

(3) A *Dealer Member* must designate as many *Executives* as necessary to ensure compliance with ~~*IIROC's*~~*Corporation requirements,* taking into account the scope and complexity of the *Dealer Member's* business.

(4) A *Dealer Member* must designate *Supervisors* and *Executives*, with the qualifications and authority necessary to fully carry out the responsibilities assigned to them.

(5) A *Dealer Member* must take reasonable steps to ensure all of its *Supervisors* and *Executives* are fully proficient and understand the products that *employees* and *Approved Persons* under their supervision trade in or advise on, as well as the services these *employees* and *Approved Persons* provide, to the degree necessary to properly supervise those *employees* and *Approved Persons*.

(6) A *Dealer Member* must have procedures in place that ensure that *Supervisors* are properly performing their supervisory functions.

3906. Responsibilities of the Supervisor

(1) Each *Supervisor* must fully and properly supervise each *employee* and *Approved Person* under their authority in accordance with:

(i) the supervisory responsibilities assigned to the *Supervisor*,

(ii) the *Dealer Member's* policies and procedures, and

(iii) ~~*IIROC*~~*Corporation requirements* and *securities laws*.

3907. Delegation of supervisory tasks

(1) A *Supervisor* may delegate supervisory tasks and procedures, but not the responsibility for their performance.

(2) Any delegation of supervisory tasks must not be contrary to ~~*IIROC*~~*Corporation requirements*, *securities laws* and *applicable laws*.

(3) A delegate must be qualified to perform the assigned tasks by virtue of registration, training or experience.

(4) The *Supervisor* must:

(i) inform the delegate of the tasks delegated to them and what is expected of them in the performance of the delegated tasks, in writing,

(ii) ensure that the delegate adequately performs the delegated tasks, and

(iii) establish reporting mechanisms for issues arising from the performance of delegated tasks.

(5) The *Dealer Member* must maintain a record of the terms of the delegation, as well as the *Supervisor's* follow up and review of the delegated tasks.

(6) The *Dealer Member* must inform the *Supervisor* of specific functions that cannot be delegated.

3908. Supervision records

(1) A *Dealer Member* must maintain a record of the names of *Supervisors*, their supervisory responsibilities and the date each *Supervisor* was designated.

(2) A *Dealer Member* must have a system in place to record the review and approval, conducted by any *Supervisor* that is required under ~~*IIROC*~~*Corporation requirements*.

(3) A *Dealer Member* must maintain adequate *records* of supervisory activity, including on-site branch reviews, compliance issues identified and the resolution of such issues.

(4) Where supervision *records* are kept at a branch office, the *Dealer Member* must conduct periodic on-site reviews of branch office supervision and record keeping.

(5) The *records* set out in section 3908 must be kept for the period set out in section 3803.

3909. Responsibilities of the Executive

(1) Each *Executive* must supervise and direct the activities of the *Dealer Member*, and its *employees* and *Approved Persons*, in accordance with the areas of its responsibility, to provide reasonable assurance of compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*.

3910. Responsibilities of the Ultimate Designated Person

(1) The *Ultimate Designated Person* is responsible to ~~*IIROC*~~the *Corporation* for the conduct of the *Dealer Member* and the supervision of its *employees* and *Approved Persons*.

(2) The *Ultimate Designated Person* must:

(i) supervise the activities of the *Dealer Member,* and the activities of each *individual* acting on the *Dealer Member's* behalf, that are directed towards ensuring compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*, and

(ii) promote compliance by the *Dealer Member*, and each *individual* acting on its behalf, with ~~*IIROC*~~*Corporation requirements* and *securities laws*.

3911. Reserved.

3912. Responsibilities of the Chief Compliance Officer

(1) The *Chief Compliance Officer* must:

(i) establish and maintain policies and procedures to assess compliance by the *Dealer Member* and *individuals* acting on its behalf with ~~*IIROC*~~*Corporation requirements* and *securities laws,* other than those required under subsection 3913(1),

(ii) monitor and assess compliance by the *Dealer Member* and *individuals* acting on its behalf with ~~*IIROC*~~*Corporation requirements* and *securities laws*, and

(iii) report to the *Ultimate Designated Person* as soon as possible if there is any indication that the *Dealer Member* or any *individual* acting on its behalf may be in non-compliance with ~~*IIROC*~~*Corporation requirements* or *securities laws*, other than those required under subsection 3913(1), and:

(a) the non-compliance creates a reasonable risk of harm to a client,

(b) the non-compliance creates a reasonable risk of harm to the capital markets, or

(c) the non-compliance is part of a pattern of non-compliance.

(2) The *Chief Compliance Officer* must have access to the *Ultimate Designated Person* and the *Dealer Member's* board of directors as necessary to carry out their responsibilities.

3913. Responsibilities of the Chief Financial Officer

(1) The *Chief Financial Officer* must:

(i) establish and maintain policies and procedures for the *Dealer Member* relating to financial ~~*IIROC*~~*Corporation requirements,*

(ii) monitor adherence to the *Dealer Member's* policies and procedures to provide reasonable assurance that the *Dealer Member* complies with the financial ~~*IIROC*~~*Corporation requirements*,

(iii) identify any breaches of approved capital usage limits and report them in accordance with section 4116; and

(iv) report to the *Ultimate Designated Person* as soon as possible if there is any indication that the *Dealer Member* or any *individual* acting on its behalf may be in non-compliance with the financial requirements of ~~*IIROC*~~the *Corporation* and:

(a) the non-compliance creates a reasonable risk of harm to a client,

(b) the non-compliance creates a reasonable risk of harm to the capital markets, or

(c) the non-compliance is part of a pattern of non-compliance.

(2) The *Chief Financial Officer* must have access to the *Ultimate Designated Person* and the *Dealer Member's* board of directors as necessary to carry out their responsibilities.

3914. Reserved.

3915. Report to Dealer Member's board of directors

(1) At least annually, the *Chief Compliance Officer* must provide a written report to the *Dealer Member's* board of directors for the purpose of assessing compliance by the *Dealer Member*, and its *employees* and *Approved Persons*, with ~~*IIROC*~~*Corporation requirements* and *securities laws,* other than those required under subsection 3915(2).

(2) At least annually, the *Chief Financial Officer* must provide a written report to the *Dealer Member's* board of directors for the purpose of assessing compliance by the *Dealer Member*, and its *employees* and *Approved Persons*, with the financial ~~*IIROC*~~*Corporation requirements* and *securities laws,* as necessary.

(3) The *Dealer Member's* board of directors must review the reports and recommendations submitted to it pursuant to section 3915 to determine the appropriate action to be taken to remedy any compliance deficiencies that are identified and must ensure that such action is taken.

(4) The *Dealer Member's* board of directors must maintain *records* of the actions it determines necessary to correct compliance problems and the monitoring done to ensure that the actions are carried out.

3916. Governance document

(1) A *Dealer Member* must file with ~~*IIROC*~~the *Corporation*:

(i) a copy of a current governance document that sets out the organizational structure and reporting relationships required under Rule 3900, and

(ii) notice of any material changes to the organizational structure and reporting relationships set out in the governance document.

3917. Annual supervisory review of financial and operational policies and procedures

(1) A *Dealer Member* must ensure that a supervisory review of its financial and operational policies and procedures is completed at least annually and that any deficiencies are identified and corrected.

3918. Supervision of shared office premises

(1) A *Dealer Member* must have policies and procedures that specifically address the supervision of *shared office premises*, as contemplated by section 2216, to provide reasonable assurance:

(i) compliance with ~~*IIROC*~~*Corporation requirements*, and

(ii) the client has a clear understanding of which entity they are dealing with.

(2) A *Dealer Member* must have:

(i) adequate supervisory resources to implement its policies and procedures,

(ii) a system for communicating ~~*IIROC*~~*Corporation requirements* relating to *employees* and *Approved Persons* at the *shared office premises*, and

(iii) a process providing reasonable assurance that ~~*IIROC*~~*Corporation requirements* relating to *shared office premises* are understood and implemented.

3919. – 3924. Reserved.

PART B – SUPERVISION OF ALL ACCOUNTS

3925. Supervision by designated persons

(1) A *Dealer Member* must effectively supervise account activity and must take reasonable steps to provide reasonable assurance of compliance with ~~*IIROC*~~*Corporation requirements*, *securities laws* and *applicable laws*.

(2) A *Dealer Member* must designate one or more *Supervisors* to be responsible for approving the opening of new accounts and for establishing and maintaining procedures relating to account supervision and supervising account activity, in accordance with ~~*IIROC*~~*Corporation requirements*.

(3) The *designated Supervisor* must be familiar with applicable ~~*IIROC*~~*Corporation requirements*, *securities laws* and *applicable laws* and the *Dealer Member's* policies and procedures.

(4) A *Dealer Member* must appoint one or more alternate *Supervisors* as required, to the *Supervisors* designated in subsection 3925(2), to supervise the *Dealer Member's* business and to assume the responsibility of the *designated Supervisor* in their absence.

3926. Account supervision policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address account supervision, which includes its standards for the review and supervision of account activity.

(2) A *Dealer Member*'s policies and procedures must specifically address the *Dealer Member's* obligations to:

(i) identify clients that present a high risk to the *Dealer Member*,

(ii) identify clients that present a high risk of conducting improper activities in the securities markets, and

(iii) comply with all anti-money laundering and terrorist financing requirements under *applicable laws*.

(3) All policies and procedures relating to the supervision of accounts held at a *Dealer Member* and any substantive amendments to such policies and procedures, must be approved by the *Dealer Member's Chief Compliance Officer* or another appropriate *Executive.*

(4) A *Dealer Member* must provide all supervisory staff with written:

(i) procedures to be followed in reviewing account activity, and

(ii) confirmation of the *Dealer Member's* expectations of supervisory staff, with respect to their supervisory roles and responsibilities.

(5) A *Dealer Member*'s policies and procedures must include controls for accessing and amending client *records*.

(6) A *Dealer Member* must periodically review the policies and procedures used at its head office and its branch offices to provide reasonable assurance the policies and procedures continue to be effective and reflect current legislative and regulatory requirements, as well as industry practices.

3927. Reviews of account activity

(1) A *Dealer Member* must review account activity as required by ~~*IIROC*~~*Corporation requirements* and must take reasonable steps to provide reasonable assurance that account activity complies with

~~IIROC~~Corporation *requirements*, *securities laws* and other *applicable laws* and the *Dealer Member's* policies and procedures.

(2) A *Dealer Member* must record and keep evidence of completed supervisory reviews, including details of inquiries about issues and their resolution, for the period required in section 3803.

(3) A *Dealer Member* must establish and follow procedures for the implementation of additional supervisory measures applicable to *Approved Persons* with a history of regulatory infractions or questionable conduct.

3928. – 3944. Reserved.

PART C – SUPERVISION OF RETAIL CLIENT ACCOUNTS

3945. Daily and monthly trade supervision

(1) A *Dealer Member* that has *retail client* accounts must have policies and procedures that specifically address daily and monthly supervision of trading activity in *retail client* accounts. These policies and procedures must outline actions to deal with problems or issues identified by the review.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading, the policies and procedures relating to the supervision of *retail client* accounts must specifically address the detection of:

(i) unsuitable trading,

(ii) undue concentration of securities in a single account or across accounts,

(iii) excessive trading,

(iv) trading in restricted securities,

(v) conflict of interest between *Registered Representative, Investment Representative, Portfolio Manager* and *Associate Portfolio Manager* and client trading activity,

(vi) excessive trade transfers and trade cancellation indicating possible unauthorized trading,

(vii) inappropriate or high risk trading strategies,

(viii) deterioration of the quality of client holdings in an account,

(ix) excessive or improper crosses of securities between clients,

(x) improper or excessive *employee* trading,

(xi) front running,

(xii) account number changes,

(xiii) late payment,

(xiv) outstanding margin calls,

(xv) undisclosed short sales,

(xvi) *manipulative and deceptive activities*, and

(xvii) insider trading.

(3) The *Dealer Member* must develop policies and procedures that specifically address supervising *retail client* accounts where a commission is not charged for trades placed by or for a client, such as fee based accounts. These policies and procedures must:

(i) address account activity review ~~*IIROC*~~*Corporation requirements*, and

(ii) use criteria other than commission levels.

(4) The *Dealer Member* must specifically designate the following *retail client* accounts for supervision purposes:

(i) *non-client accounts*,

(ii) *discretionary accounts*,

(iii) *managed accounts*,

(iv) registered accounts, and

(v) restricted accounts.

3946. Additional supervisory responsibilities

(1) In addition to transactional activity, the *Dealer Member*'s policies and procedures must specifically address identifying, dealing with and informing the appropriate *Supervisors* of other client related matters, including:

(i) client complaints,

(ii) cash account violations,

(iii) transfers of funds and securities between unrelated accounts or between *non-client accounts* and client accounts or deposits from *non-client accounts* to client accounts, and

(iv) trading while the account is under margined.

3947. Supervision of new Registered Representatives and Investment Representatives

(1) A *Dealer Member* must closely supervise *Registered Representatives* and *Investment Representatives* dealing with *retail clients* for six months after approval, as set out in the *Registered Representative* / *Investment Representative* Monthly Supervision Report.

(2) Subsection 3947(1) does not apply if:

(i) the *Registered Representative* was previously approved, for six months or more, to advise on trades for *retail clients* for a securities firm that is a member of a *SRO* or a *recognized foreign self-regulatory organization*, or

(ii) the *Investment Representative* was previously approved for six months or more to advise on trades or to trade for *retail clients* for a securities firm that is a member of a *SRO* or a *recognized foreign self-regulatory organization.*

(3) A *Dealer Member* must complete and keep a copy of every *Registered Representative* / *Investment Representative* Monthly Supervision Report for ~~*IIROC*~~the *Corporation's* inspection.

3948. Supervision of suitability determination obligations

(1) A *Dealer Member* must supervise each *Registered Representative*, *Investment Representative*, *Portfolio Manager* and *Associate Portfolio Manager* to confirm that they are complying with their responsibilities relating to the suitability determination to *retail clients* under Rule 3400.

3949. Reserved.

PART D – SUPERVISION OF INSTITUTIONAL CLIENT ACCOUNTS

3950. Supervisory policies and procedures for institutional client accounts

(1) A *Dealer Member* that offers *institutional client* accounts must have policies and procedures that specifically address the supervision and review of trading activity in *institutional clients*' accounts. These policies and procedures must outline the actions to deal with problems or issues identified from supervisory reviews.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations, including any relevant obligations relating to trading in securities, *debt securities*, *options*, *futures contracts* and *futures contract options,* the policies and procedures relating to the supervision of *institutional client* accounts must specifically address detecting improper or suspicious account activity including:

(i) *manipulative and deceptive activities*,

(ii) trading in securities on the *Dealer Member's* restricted list,

(iii) front running by *employee* or proprietary accounts,

(iv) trading in securities that have restrictions on their transfer, and

(v) exceeding position or exercise limits on *derivative* products.

3951. Supervision of suitability determination obligations

(1) A *Dealer Member* must supervise each *Registered Representative*, *Investment Representative*, *Portfolio Manager* and *Associate Portfolio Manager* to confirm their compliance with their responsibilities relating to the suitability determination to *institutional clients* under section 3403.

3952. –3954. Reserved.

PART E – SUPERVISION OF ORDER EXECUTION ONLY ACCOUNTS

3955. Supervision of order execution only accounts

(1) A *Dealer Member* that is approved by ~~*IIROC*~~the *Corporation* to provide *order execution only accounts* within a separate legal entity or within a separate business unit must have policies and procedures in place to:

(i) meet the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading in securities, *debt securities, options*, *futures contracts* and *futures contract options,*

(ii) ensure that clients are not provided with recommendations as a result of the client having an account with:

~~(a)~~ (a) a separate legal entity of the *Dealer Member*,

~~(b)~~ (b) a separate business unit of the *Dealer Member,* or

~~(c)~~ (c) the *Dealer Member* itself, and

(iii) to review customer trading and accounts for those concerns listed in Rule 3900, other than those relating to the suitability requirements.

(2) The *Dealer Member's*, or separate business unit of the *Dealer Member*, policies and procedures relating to review of client trading must specifically address the risks associated with the method of order entry and the absence of intermediation by *employees* of the *Dealer Member*.

(3) The *Dealer Member* or separate business unit of the *Dealer Member* must maintain an audit trail of all supervisory reviews as required in Rule 3900.

(4) The *Dealer Member* or separate business unit of the *Dealer Member* must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under section 3955.

3956. – 3959. Reserved.

PART F –SUPERVISION OF OPTIONS, FUTURES CONTRACTS AND FUTURES CONTRACT OPTION TRADING ACCOUNTS

3960. Supervision of options accounts

(1) A *Dealer Member* that allows trading in *options* must appoint a *designated Supervisor* to supervise its *options* activity.

(2) The *designated Supervisor* must have the qualifications and experience required to supervise the *Dealer Member's options* activity.

(3) The *Dealer Member* must appoint one or more alternate *Supervisors* if necessary to ensure continuous supervision of its *options* activity.

(4) An alternate *Supervisor* must assume all or part of the *designated Supervisor's* responsibilities if:

(i) the *designated Supervisor* is absent or unable to carry out their duties, or

(ii) a *Dealer Member's* trading activity requires additional qualified *individuals* to supervise the *Dealer Member's option* contract business.

3961. Responsibility of designated Supervisors for options accounts

(1) The *designated Supervisor* is responsible for:

(i) approving new *options* accounts, and

(ii) ensuring that the handling of clients' *options* account trading complies with ~~*IIROC*~~*Corporation requirements*.

3962. Supervision of retail options accounts

(1) The *designated Supervisor* is responsible for ensuring that all recommendations made for an account are and continue to be suitable for the client and put the client's interest first.

(2) The *Dealer Member* must ensure that only *Registered Representatives*, *Investment Representatives, Portfolio Managers* and *Associate Portfolio Managers* that are also *options* qualified trade in or advise on *options*.

(3) On a daily and monthly basis, the *designated Supervisor* must review all *options* accounts that are designated as *discretionary accounts* and *managed accounts*.

(4) The *Dealer Member* must have *policies* and procedures that specifically address notifying clients of:

(i) approaching expiry dates,

(ii) significant changes in *options* resulting from changes in the underlying interest,

(iii) any changes in the *Dealer Member's* business policy, and

(iv) any new developments in the trading or regulation of *options* that may impact clients.

(5) The *Dealer Member* must have policies and procedures that specifically require the d*esignated Supervisor* to approve the solicitation of clients to use *options* programs, as well as clients' actual use of *options*.

3963. Supervision of retail options account trading activity

(1) In addition to ~~*IIROC*~~*Corporation requirements* relating to account supervision, the *Dealer Member's* policies and procedures must specifically address reviewing *option* trading activity to detect the following:

(i) the exceeding of position or exercise limits, and

(ii) exposures arising out of uncovered *option* positions.

(2) Accounts must be selected for review using criteria that provides reasonable assurance of detecting improper trading activity.

3964. Supervision of futures contract and futures contract options accounts

(1) A *Dealer Member* that trades or advises in respect of *futures contract* or *futures contract options* must appoint a *designated Supervisor* to supervise its *futures contract* and *futures contract options* activity.

(2) The *designated Supervisor* must have the qualifications and experience required to supervise the *Dealer Member's futures contract* or *futures contract options* activity.

(3) The *Dealer Member* must appoint one or more alternate *Supervisors* if necessary to ensure continuous supervision of its *futures contract* and *futures contract options* activity.

(4) An alternate *Supervisor* must assume all or some of the *designated Supervisor's* responsibilities if:

(i) the *designated Supervisor* is absent or unable to carry out their duties, or

(ii) a *Dealer Member's* trading activity requires additional qualified *individuals* to supervise the *Dealer Member's futures contract* and *futures contract options* business.

3965. Responsibility of designated Supervisors for futures contract and futures contract options accounts

(1) For *futures contract* accounts and *futures contract option* accounts, the respective *designated Supervisors* are responsible for:

(i) approving new *futures contract* accounts and *futures contract options* accounts, and

(ii) ensuring the handling of clients' *futures contract* and *futures contract options* account trading complies with ~~*IIROC*~~*Corporation requirements*.

3966. Access to Approved Persons qualified in futures contract and futures contract options

(1) The *Dealer Member*'s policies and procedures must specifically address that *futures contract* and *futures contract options* clients have access, during normal business hours, to a *Registered Representative*, *Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* qualified to deal in *futures contracts* and *futures contract options*.

3967. Supervision of retail futures contract and futures contract options accounts

(1) The *designated Supervisor* is responsible for:

(i) reviewing and approving client loss limits when they are set annually, taking into consideration previous losses, and

(ii) ensuring that all recommendations made for an account are and continue to be suitable for the client and put the client's interest first.

(2) The *Dealer Member* must ensure that only *futures contract* and *futures contract options* qualified *Registered Representatives*, *Investment Representatives*, *Portfolio Managers* and *Associate Portfolio Managers* trade in or advise on *futures contracts* or *futures contract options*.

(3) The *designated Supervisor* must review all discretionary and managed *futures contract* and *futures contract options* accounts on a daily and monthly basis.

(4) The *Dealer Member*'s policies and procedures must specifically address proper handling of positions with pending delivery months.

(5) The *Dealer Member* must establish procedures to notify clients of:

(i) any changes in the *Dealer Member's* business policy, and

(ii) new developments in trading and regulation of *futures contract*s and *futures contract options* that may impact clients.

(6) The *Dealer Member*'s policies and procedures must specifically require the *designated Supervisor* to approve the solicitation of clients to use futures programs as well as clients' use of *futures contracts* or *futures contract options*.

3968. Supervision of retail futures contract and futures contract options trading activity

(1) The *Dealer Member* must review all *futures contracts* and *futures contract options* trading to detect the following:

(i) excessive day trading resulting in trading large numbers of contracts,

(ii) trading while the account is under margined,

(iii) trading beyond margin or credit limits,

(iv) cumulative losses exceeding risk limits,

(v) position and exercise limits that have been exceeded,

(vi) speculative trading in hedge accounts, and

(vii) exposure to delivery through holding contracts into delivery month.

3969. Reserved.

PART G –SUPERVISION OF DISCRETIONARY ACCOUNTS AND MANAGED ACCOUNTS

3970. Supervision for discretionary accounts

(1) In addition to ~~*IIROC*~~*Corporation requirements* relating to account supervision, the *designated Supervisor* responsible for *discretionary accounts* must also review the financial performance of each *discretionary account* at least monthly.

(2) As part of the review in subsection 3970(1), the *designated Supervisor* must also review *discretionary accounts* to determine if the *Registered Representative*, authorized to affect trades

for the *discretionary account* should continue to do so, based on the *designated Supervisor's* assessment of the *discretionary account's* financial performance.

(3) The *designated Supervisor* responsible for *discretionary accounts* must not delegate the performance of the reviews required in subsections 3970(1) and 3970(2) to any other *person*.

(4) A *designated Supervisor* must review any discretionary order initiated in a *discretionary account* by a *Registered Representative* prior to the order being entered unless:

(i) the *Registered Representative* has been approved as a *Portfolio Manager,* or

(ii) the *Registered Representative* is also an *Executive*, and

(iii) the *designated Supervisor* reviews the order no later than one *business day* after the trade was made.

(5) A *designated Supervisor* must review any discretionary order initiated for a *discretionary account* by an *Executive* who is approved as a *Portfolio Manager,* no later than the day after the trade was made.

3971. Supervision of managed accounts

(1) A *Dealer Member* that has *managed accounts* must:

(i) designate a *Supervisor* to be responsible for the supervision of *managed accounts*, and

(ii) have policies and procedures that specifically address the supervision of *individuals* responsible for handling *managed accounts* to provide reasonable assurance of compliance with ~~*IIROC*~~*Corporation requirements*.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading in securities, *debt securities*, *options*, *futures contracts* and *futures contract options*, the *Dealer Member's* policies and procedures dealing with the supervision of *managed account*s must specifically address:

(i) identifying when a *Portfolio Manager* or sub-adviser, as described in section 3279, has contravened *managed account* conflict of interest related requirements set out in section 3280, and

(ii) ensuring fairness in the allocation of investment opportunities among its *managed accounts*.

(3) The *Dealer Member's* policies and procedures dealing with the supervision of *managed accounts* must specifically address the direct supervision of any *Associate Portfolio Manager* that provides discretionary management to *managed accounts,* including a prohibition on the *Associate Portfolio Manager* providing advice unless the advice has been approved by a *Portfolio Manager* at the *Dealer Member* prior to the *Associate Portfolio Manager* providing the advice.

(4) Supervision of the *Associate Portfolio Manager* must be conducted by:

(i) a *Portfolio Manager* at the *Dealer Member* or another *Dealer Member* who is authorized to provide discretionary management to *managed accounts* and who is not in the period of close supervision, or

(ii) a *person* registered as an advisor under *securities laws* who has entered into a contract with the *Dealer Member* to provide the supervision.

3972. Managed account committee

(1) A *Dealer Member* that has *managed accounts* must establish a *managed account* committee that includes at least one *designated Supervisor* responsible for *managed accounts* and the *Chief Compliance Officer*. The committee must, at least annually:

(i) review the *Dealer Member's* policies and procedures dealing with the supervision of *managed accounts*, and

(ii) recommend to senior management appropriate actions necessary to achieve compliance with ~~*IIROC*~~*Corporation requirements* and *securities laws*, applicable to *managed accounts*.

3973. Managed account review

(1) In addition to ~~*IIROC*~~*Corporation requirements* relating to account supervision, the *designated Supervisor* under clause 3970(1)(i) must review each *managed account* quarterly to provide reasonable assurance that:

(i) the client's investment objectives are being pursued, and

(ii) the handling of each of the *managed accounts* complies with ~~*IIROC*~~*Corporation requirements*.

(2) If the investment decisions for a *managed account* are made centrally and apply to a number of *managed accounts*, the quarterly review may be done at an aggregate level, subject to minor variations to allow for client directed investment restrictions and the timing of client cash flows into the *managed account*.

3974. – 3999. Reserved.

RULE 4100 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

4101. Introduction

(1) Rule 4100 sets out the following *Dealer Member* general financial requirements:

Part A - Minimum capital level and related requirements
[sections 4110 through 4119]

Part B - Early warning tests and related requirements
[sections 4130 through 4138]

Part C - Regulatory financial report filing requirements
[sections 4150 through 4153]

Part D - Appointment of auditors and audit requirements
[sections 4170 through 4192]

4102. - 4109. Reserved.

PART A - MINIMUM CAPITAL LEVEL AND RELATED REQUIREMENTS

4110. Introduction

(1) Part A of Rule 4100 sets out general ~~*Dealer Member IIROC*~~*Corporation requirements* for:

(i) maintaining at all times a positive *risk adjusted capital* amount,

(ii) averting, reporting and remedying any negative *risk adjusted capital* situations,

(iii) calculating its current *risk adjusted capital* amount,

(iv) maintaining and utilizing a capital adequacy reporting system, and

(v) consolidating its financial position reporting with *related companies*.

4111. Maintaining a positive risk adjusted capital amount

(1) A *Dealer Member* must at all times maintain a *risk adjusted capital* amount of greater than zero.

4112. Negative risk adjusted capital and other early warning test failure situations

(1) The *Chief Financial Officer* and *Ultimate Designated Person* must take prompt action to:

(i) avert or remedy any projected or actual negative *risk adjusted capital* situations,

(ii) report to ~~*IIROC*~~the *Corporation* any actual negative *risk adjusted capital* situations,

(iii) report to ~~*IIROC*~~the *Corporation* any early warning test failure situations that could require the *Dealer Member* to be designated in early warning level 1 or level 2, and

(iv) report to ~~*IIROC*~~the *Corporation* any circumstances from which it should be apparent that there would be early warning test failures that could require the *Dealer Member* to be designated in early warning level 1 or level 2 if the *Dealer Member* had complied with the requirements of Rule 4100 and performed the early warning test calculations.

4113. Calculating current risk adjusted capital amount - general requirements

(1) A *Dealer Member* must calculate its *risk adjusted capital* amount according to the requirements specified in Form 1 and any other ~~*IIROC*~~*Corporation requirements*.

(2) A *Dealer Member* must know its current *risk adjusted capital* amount by computing it as often as necessary to ensure it has adequate regulatory capital at all times. The *Dealer Member* must also comply with weekly, monthly and annual calculation and documentation requirements in Rule 4100.

4114. Calculating current capital position - weekly documentation

(1) At least weekly, but more frequently if required (for instance, the *Dealer Member* is close to violating an early warning test or volatile market conditions exist), the *Chief Financial Officer* or designate must document that he or she has:

(i) received management reports produced by the *Dealer Member's* accounting system showing information relevant to estimating the *Dealer Member's risk adjusted capital* amount,

(ii) obtained other information about items that, while perhaps not yet recorded in the accounting system, are likely to significantly affect the *Dealer Member's risk adjusted capital* amount (for instance, bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements),

(iii) calculated the *Dealer Member's risk adjusted capital* amount, compared it to planned and prior period capital levels, and reported adverse trends or variances to the *Ultimate Designated Person*,

(iv) performed the early warning liquidity and capital test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has or may have violated any of these tests, and

(v) performed the early warning profitability test calculations for the *Dealer Member* where the *Dealer Member* has experienced a significant month-to-date loss, and determined whether or not the *Dealer Member* has or may have violated this test.

4115. Calculating current capital position - monthly documentation and reconciliation

(1) A *Dealer Member* must generate monthly trial balances and prepare regulatory capital computations based on its current ledger accounts to:

(i) check on status and accuracy of those ledger accounts, and

(ii) keep itself informed of its *risk adjusted capital* amount as required under Part A of Rule 4100.

(2) The *Chief Financial Officer* or designate must document that he or she has at least monthly, performed the early warning liquidity, capital and profitability test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has violated this test.

(3) The preliminary month-end estimate of the *Dealer Member's risk adjusted capital* amount must be reconciled to the final *risk adjusted capital* amount reported as part of the *Dealer Member's* monthly financial report. Material discrepancies must be investigated and steps taken to avoid re-occurrence.

4116. Dealer Member capital adequacy reporting system - adequate policies and procedures

(1) A *Dealer Member* must:

(i) have policies and procedures that specifically address timely, complete and accurate *records*,

(ii) maintain a capital adequacy reporting system:

(a) based on timely, complete and accurate accounting *records*,

(b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (for instance, capital markets, principal trading, borrowing/lending),

(c) that includes senior management approved capital usage limits for each of these functional areas that provides for reasonable assurance its combined operations maintain adequate intra-day and end of day *risk adjusted capital* amounts, and

(d) that identifies and informs senior management of breaches of approved capital usage limits. The *Chief Financial Officer* is responsible for identifying any breaches and reporting them to the *Dealer Member's* appropriate *Executives*,

(iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains at all times a positive *risk adjusted capital* amount as prescribed by ~~*IIROC*~~*Corporation requirements*,

(iv) identify and implement changes, on an ongoing basis, to its capital adequacy reporting system required to reflect developments in its business or in regulatory requirements, and

(v) perform and document, at least annually, a supervisory review of its capital adequacy reporting system.

(2) A *Dealer Member's Chief Financial Officer* must continuously monitor the *Dealer Member's risk adjusted capital* amount to ensure that the *Dealer Member* maintains at all times a positive *risk adjusted capital* amount as prescribed by ~~*IIROC*~~*Corporation requirements.*

4117. Consolidation of financial position with related companies

(1) In calculating its *risk adjusted capital*, a *Dealer Member* may consolidate its financial position with the financial position of any of its *related companies* if:

(i) ~~*IIROC*~~the *Corporation* has provided the *Dealer Member* with prior written approval of the consolidation,

(ii) the *Dealer Member* has guaranteed the obligations of the *related company* and the *related company* has guaranteed the obligations of the *Dealer Member*,

(iii) the *guarantees* are:

(a) in a form acceptable to ~~*IIROC*~~the *Corporation*, and

(b) unlimited in amount,

and

(iv) the consolidation meets the requirements in subsection 4117(2).

(2) A *Dealer Member* consolidating its financial position with a *related company* under subsection 4117(1) must comply with the following requirements or with other requirements acceptable to ~~*IIROC*~~the *Corporation*:

(i) eliminate inter-company accounts between the *Dealer Member* and the *related company*,

(ii) eliminate any minority interests in the *related company* from the *Dealer Member's* capital calculation, and

(iii) combine *Dealer Member* and *related company* financial information prepared as at the same date.

4118. Options for calculating risk adjusted capital available to well-capitalized Dealer Members

(1) A *Dealer Member*, whose *risk adjusted capital*, *early warning excess* and *early warning reserve* amounts are substantially in excess of that required under ~~*IIROC*~~*Corporation requirements*, may apply requirements more stringent than ~~*IIROC*~~the *Corporation* capital computation requirements and thereby omit certain documentation in support of the computation. For example, when calculating *risk adjusted capital*:

(i) inventories can be grouped into broader margin categories and maximum margin rates applied,

(ii) margin requirement reductions for offset positions recognized elsewhere in ~~*IIROC*~~*Corporation requirements* can be ignored, and

(iii) assets partly allowable or of questionable value can be excluded entirely.

4119. Dealer Member guarantees

(1) Any *guarantee* provided by a *Dealer Member* must be of a fixed or determinable amount, unless the *guarantee* is given to a *related company* in accordance with section 2206.

4120. - 4129. Reserved.

PART B - EARLY WARNING TESTS AND RELATED REQUIREMENTS

4130. Introduction

(1) Part B of Rule 4100 describes the early warning system that alerts ~~*IIROC*~~the *Corporation* to a *Dealer Member's* financial or operational problems. It also sets out the process ~~*IIROC*~~the *Corporation* follows and the requirements that *Dealer Members* must comply with to resolve *early warning test violation* situations before they worsen.

(2) A *Dealer Member* has a responsibility to:

(i) monitor for *early warning test violations*,

(ii) avoid the potential for *early warning test violations*, and

(iii) report *early warning test violations* to ~~*IIROC*~~the *Corporation* when they occur.

4131. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4100:

"average monthly loss"	The sum of the *Dealer Member's* monthly *profit* and *loss* amounts for a particular period divided by the number of months in the period and the result is a loss.
"early warning test violation"	The *Dealer Member* has failed an early warning test as set out in Schedules 13 and 13A of Form 1.
"loss"	The *Dealer Member's* loss, if any, for early warning test purposes as set out in Statement E of Form 1.

"profit"	The *Dealer Member's* profit, if any, for early warning test purposes as set out in Statement E of Form 1.

4132. Early warning designation, levels and tests

(1) A *Dealer Member* is designated as being in early warning level 1 or level 2 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1	Early warning level 2
Liquidity test	*Dealer Member's early warning reserve* is less than zero.	*Dealer Member's early warning excess* is less than zero.
Capital test	*Dealer Member's risk adjusted capital* is less than five per cent of its *total margin required*.	*Dealer Member's risk adjusted capital* is less than two per cent of its *total margin required*.
Profitability test #1	*Dealer Member's* current month *risk adjusted capital* is less than six times but greater than or equal to three times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.
Profitability test #2	*Dealer Member's* current month *risk adjusted capital* is less than six times the absolute value of its *loss*, if any, for the current month.	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *loss*, if any, for the current month.
Profitability test #3	Not applicable	*Dealer Member's* current month *risk adjusted capital* is less than the absolute value of its *loss*, if any, for the three month period ending with the current month.
Frequency	Not applicable	*Dealer Member* has been designated as being in any early warning, excluding discretionary early warnings, three or more times in the preceding six months, **or** *Dealer Member* has failed an early warning level 1 profitability test and at the same time has also failed either an

Early warning tests	Early warning level 1	Early warning level 2
		early warning level 1 liquidity or capital test.

4133. Early warning related requirements

(1) When a *Dealer Member* has been designated as being in early warning level 1 or level 2, because of an *early warning test violation* under section 4132, the following actions must be taken:

	Early warning level 1	Early warning level 2
Notifying ~~IIROC~~the Corporation in writing	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to ~~IIROC~~the *Corporation* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Canadian Investor Protection Fund*.	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to ~~IIROC~~the *Corporation* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Canadian Investor Protection Fund*.
Meeting with ~~IIROC~~the Corporation	Not applicable	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must meet with ~~IIROC~~the *Corporation* to present the *Dealer Member's* plan for rectifying the identified problems.
Taking required actions	The *Dealer Member* must: (i) file a monthly financial report required under section 4151 within 15 *business days* after the end of each month or on any	The *Dealer Member* must: (i) file a weekly capital report with the same information as a monthly financial report within five *business days* after the end of each week or

	Early warning level 1	Early warning level 2
	earlier day that ~~IIROC~~the *Corporation* considers practicable, (ii) provide any other information that ~~IIROC~~the *Corporation* requests, and (iii) comply with the business restrictions in section 4135.	on any earlier day that ~~IIROC~~the *Corporation* considers practicable, (ii) file a weekly report, in ~~an IIROC~~a *Corporation* prescribed form, of its aged *segregation* deficiencies and an outline of its plan to correct them according to sections 4321 through 4326, (iii) file a business plan for such period and covering such matters as ~~IIROC~~the *Corporation* specifies, (iv) file its next monthly financial report required under section 4151 within 10 *business days* after the end of each month or any earlier day that ~~IIROC~~the *Corporation* considers practicable, (v) provide any other information that ~~IIROC~~the *Corporation* requests, and (vi) comply with the business restrictions in section 4135.
Responding to ~~IIROC~~ the Corporation's letter	~~IIROC~~The *Corporation* will send a letter to a *Dealer Member* in early warning level 1 confirming that the *Dealer Member* has been designated as being in early warning level 1 and requesting information from the *Dealer Member*. A *Dealer Member* will respond to ~~IIROC~~the *Corporation's* early warning letter within five *business days*: (i) with the requested information, **or** (ii) acknowledging it will submit the information promptly, **and** (iii) with an update on the *Dealer Member's* early warning situation if any material circumstances have changed.	~~IIROC~~The *Corporation* will send a letter to a *Dealer Member* in early warning level 2 confirming that the *Dealer Member* has been designated as being in early warning level 2 and requesting information from the *Dealer Member*. A *Dealer Member* will respond to ~~IIROC~~ the *Corporation's* early warning letter within five *business days*: (i) with the requested information, **or** (ii) acknowledging it will submit the information promptly, **and** (iii) with an update on the *Dealer Member's* early warning situation if any material circumstances have changed. The *Dealer Member* must send copies of its response letter to its auditor and the *Canadian Investor Protection Fund*.

	Early warning level 1	Early warning level 2
	The *Dealer Member* must send copies of its response letter to its auditor and the *Canadian Investor Protection Fund*.	
On-site reviewing of the Dealer Member's procedures	~~*IIROC*~~The *Corporation* will as soon as practicable: (i) conduct an on-site review of the *Dealer Member's* procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	~~*IIROC*~~The *Corporation* will as soon as practicable: (i) conduct an on-site review of the *Dealer Member's* procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.
Reimbursing ~~IIROC~~the Corporation for costs	~~*IIROC*~~The *Corporation* may require a *Dealer Member* to pay reasonable costs and expenses incurred to administer the *Dealer Member's* early warning situation under Rule 4100.	~~*IIROC*~~The *Corporation* may require a *Dealer Member* to pay reasonable costs and expenses incurred to administer the *Dealer Member's* early warning situation under Rule 4100.

4134. Discretion to designate a Dealer Member as being in early warning

(1) ~~*IIROC*~~The *Corporation* may designate a *Dealer Member* as being in early warning level 1 or 2, if at any time, the condition of the *Dealer Member* is not satisfactory for any reason, including:

(i) financial or operating difficulties,

(ii) problems arising from a record-keeping conversion or significant changes in clearing methods,

(iii) issues related to being a new *Dealer Member*, or

(iv) lateness in any filing or reporting required by ~~*IIROC*~~the *Corporation*.

4135. Restrictions on a Dealer Member in early warning

(1) A *Dealer Member* designated as being in early warning level 1 or 2 must obtain ~~*IIROC*~~the *Corporation's* written consent before:

(i) reducing its capital in any way, including by share redemption, re-purchase or cancellation,

(ii) reducing any of its ~~*IIROC*~~*Corporation* approved subordinated indebtedness,

(iii) incurring any direct or indirect loan, advance, bonus, dividend, capital or other payments or distributions of assets to any *Director*, *officer*, partner, shareholder, *related company*, *affiliate* or *associate*, or

(iv) incurring any commitments to increase its non-allowable assets.

4136. Additional restrictions

(1) ~~*IIROC*~~The *Corporation* may impose any of the following additional restrictions on a *Dealer Member* in early warning:

Early warning level 1	Early warning level 2
None	(i) Reducing the amount of clients' *free credit balances* that the *Dealer Member* or its *carrying broker* may use under Part C of Rule 4300, to an amount ~~*IIROC*~~the *Corporation* considers desirable. (ii) Prohibiting the *Dealer Member* from opening new branch offices, hiring any new *Registered Representatives, Investment Representatives*, *Portfolio Managers* or *Associate Portfolio Managers,* opening any new client accounts, or changing in any material way the *Dealer Member's* inventory positions.

(2) For the restrictions under early warning level 2 part (ii) of subsection 4136(1), ~~*IIROC*~~the *Corporation* must provide the *Dealer Member* with a written notice of the order imposing additional restrictions on the *Dealer Member*.

(3) Review of early warning level 2 prohibitions

(i) The *Dealer Member* may request a *hearing panel* review of a subsection 4136(2) order within three *business days* after release of the decision.

(ii) If a request for review is made, the *hearing* shall be held as soon as reasonably possible and no later than 21 days after the request for review, unless otherwise agreed by the parties. The *hearing panel* review shall be conducted in accordance with the requirements set out in Rule 9300.

(iii) If a *Dealer Member* does not request a review within the time period prescribed in clause 4136(3)(i), the subsection 4136(2) order becomes effective and final.

4137. Prohibited transactions

(1) A *Dealer Member* must not enter into any transaction that would cause the *Dealer Member* to be in early warning unless it first notifies ~~*IIROC*~~the *Corporation* in writing of its intention to do so and receives ~~*IIROC*~~the *Corporation's* written approval.

4138. Lifting an early warning designation

(1) A *Dealer Member* will remain designated as being in early warning level 1 or 2 until ~~*IIROC*~~the *Corporation* confirms in writing that the early warning designation has been lifted. ~~*IIROC*~~The *Corporation* will lift the early warning designation when the *Dealer Member* files a monthly financial report, or submits such other evidence or assurances, that satisfies ~~*IIROC*~~the *Corporation* that the *Dealer Member* has solved the problems that placed it in early warning.

4139. - 4149. Reserved.

PART C - REGULATORY FINANCIAL REPORT FILING REQUIREMENTS

4150. Introduction

(1) Part C of Rule 4100 sets out a *Dealer Member's* financial reporting obligations. Financial reporting enables ~~*IIROC*~~the *Corporation* to monitor a *Dealer Member's* financial position and compliance with ~~*IIROC*~~*Corporation requirements* relating to regulatory capital, as well as to receive an early indication of any deterioration in that position.

4151. Dealer Member financial filings

(1) A *Dealer Member* must file:

(i) an audited Form 1 for its fiscal year within seven weeks following year-end, and

(ii) a monthly financial report for each calendar month within 20 *business days* following month-end,

in accordance with ~~*IIROC*~~*Corporation requirements*.

4152. Extending deadline for financial filings

(1) A *Dealer Member* may request an extension of time for filing its monthly financial report by writing to ~~*IIROC*~~the *Corporation*.

(2) A *Dealer Member's auditor* may request an extension of time for filing the *Dealer Member's* annual Form 1 by writing to ~~*IIROC*~~the *Corporation*.

(3) ~~*IIROC*~~The *Corporation* may grant an extension under subsections 4152(1) and 4152(2) if it considers the request to be appropriate in the circumstances.

4153. Late filing fee

(1) A *Dealer Member* must pay a fee, even when an extension is granted, to ~~*IIROC*~~the *Corporation* if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by ~~*IIROC*~~the *Corporation*.

4154. - 4169. Reserved.

PART D - APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS

4170. Introduction

(1) Part D of Rule 4100 sets out the minimum requirements for the appointment of auditors and for the conducting of audits. The audit requirements ensure that auditors test for specific financial and regulatory compliance issues and report any breaches of rules or standards to ~~*IIROC*~~the *Corporation*.

4171. Approved auditors

(1) ~~*IIROC*~~The *Corporation* annually approves, based on adopted criteria, a list of audit firms as panel auditors eligible to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

(2) ~~*IIROC*~~The *Corporation* may remove an audit firm from the approved list if the audit firm no longer meets the criteria referred to in subsection 4171(1).

4172. Dealer Member's auditor

(1) A *Dealer Member* must use ~~an *IIROC*~~a *Corporation* approved auditor to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

4173. Responsibilities of a Dealer Member's auditor

(1) The *Dealer Member's auditor* must:

(i) conduct an audit of the *Dealer Member's* fiscal year Form 1 filing, and

(ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the *Dealer Member's* fiscal year Form 1 filing.

4174. No limitation on scope or procedures

(1) Nothing in Rule 4100:

(i) limits the scope of the audit, or

(ii) allows the *Dealer Member's auditor* to omit any additional audit procedure that it considers necessary under the circumstances.

4175. Audit in accordance with Canadian Auditing Standards

(1) The *Dealer Member's auditor* must audit the *Dealer Member's* fiscal year Form 1 filing in accordance with Canadian Auditing Standards. The audit of a *Dealer Member* requires a substantive approach and must include a review of the accounting system and the *internal controls* for safeguarding assets.

The review must:

(i) cover any in-house or service bureau electronic data processing operations, and

(ii) where applicable, consider and include the appropriate report based on the Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization.

(2) Although conducted in accordance with Canadian Auditing Standards, a *Dealer Member's* substantive audit procedures must be performed as at the fiscal year-end audit date and not as of an earlier date.

(3) A *Dealer Member's risk adjusted capital* and *early warning reserve* levels must be considered when determining materiality for the *Dealer Member's* audit.

4176. Test procedures as at the fiscal year-end date

(1) The *Dealer Member's auditor* must conduct the test procedures in sections 4177 through 4188 as at the fiscal year-end date, which is the fiscal year-end audit date.

4177. Account for all securities, currencies, and other like assets

(1) The *Dealer Member's auditor* must account for all securities, currencies and other like assets, including those held in *safekeeping* or in *segregation*, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.

(2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.

(3) If a *Dealer Member* has *employees* who are independent of its *employees* who handle or record securities, those independent *employees* may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.

(4) The *Dealer Member's auditor* must test count and compare sufficient security counts with the independent *employees'* counts, if applicable, and with the security position *records*, to be satisfied that the entire count was materially correct.

(5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

4178. Verify securities in transfer and in transit

(1) On a test basis, the *Dealer Member's auditor* must verify securities in transfer and in transit between the *Dealer Member's* offices.

4179. Review the Dealer Member's position balancing and account reconciliations

(1) The *Dealer Member's auditor* must review the *Dealer Member's*:

(i) balancing of all security and *derivative* positions,

(ii) reconciliation of all broker, dealer, clearing account positions, and non-certificated instrument positions the *Dealer Member* holds (in its inventory and for clients) with the counterparty's corresponding statements,

and

(iii) reconciliation to ensure that all necessary adjustments identified during the preparation have been made.

(2) If a position or account is not in balance according to the *records* (after adjusting to the physical count):

(i) the *Dealer Member's auditor* must find out whether the *Dealer Member* has adequately provided for any potential loss, and

(ii) the *Dealer Member* must make that provision according to the Notes and Instructions for unresolved differences in Statement B of Form 1.

4180. Review bank reconciliations

(1) The *Dealer Member's auditor* must:

(i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the *Dealer Member's* banks which cover a period ending at least 10 *business days* after the fiscal year-end audit date,

(ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts as of the fiscal year-end audit date and on a test basis, using appropriate audit procedures, and

(iii) verify that all necessary adjustments identified during the preparation of the reconciliation have been made.

4181. Review custodial agreements and approvals

(1) The *Dealer Member's auditor* must:

(i) ensure that all custodial agreements in the form prescribed by ~~*IIROC*~~the *Corporation*, are in place for securities lodged with *acceptable securities locations*, and

(ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. Obtain written positive confirmations

(1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and security positions.

(2) The *Dealer Member's auditor* must obtain written positive confirmation of:

(i) all bank balances and other deposits including hypothecated securities,

(ii) all money, security positions, and *derivative* positions, including with clearing houses, similar organizations, and issuers of non-certificated instruments,

(iii) all money and securities loaned or borrowed (including *subordinated debt*) and details of collateral received or pledged, if any,

(iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and security positions and *derivative* positions,

(v) all accounts of *Directors* and *officers* or partners, including money and security positions and *derivative* positions,

(vi) a sample of client, *employee*, and shareholder accounts, including money and security positions and *derivative* positions,

(vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or as at the end of the fiscal year,

(viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and

(ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. Selection of accounts for positive confirmation

(1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:

(i) must send a positive confirmation request,

(ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and

(iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.

(2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:

(i) select specific accounts for positive confirmation based on:

(a) account size (all accounts with net equity exceeding a certain dollar value, based on the level of materiality), and

(b) other characteristics such as accounts in dispute, accounts that are significantly under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,

(ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and

(iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

4184. Written confirmation of clients' accounts with no balance

(1) The *Dealer Member's auditor* must, using positive or negative written confirmation procedures, confirm on a test basis client accounts with no balance and client accounts closed since the last fiscal year-end audit date. The *Dealer Member's auditor* must consider the adequacy of the *Dealer Member's internal control* system to decide the extent of these procedures.

4185. Effect on capital if no positive written confirmation received for a guarantee

(1) If the *Dealer Member's auditor* does not receive a reply to a positive confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the *guarantee* agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:

(i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or

(ii) the parties sign a new account *guarantee* agreement.

(2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the *guarantee*, that *guarantee* must not be accepted for margin reduction purposes until:

(i) the dispute is resolved, and

(ii) the guarantor provides a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

4186. Review a sample of signed guarantee agreements

(1) The *Dealer Member's auditor* must review a sample of the *Dealer Member's guarantee* agreements to ensure they are signed, completed, and comply with the minimum requirements set out in subsection 5825(1).

4187. Tests and procedures on statements and schedules of Form 1

(1) The additional information set out in Part II of Form 1 should be subjected to the procedures in the audit of Part I of Form 1, which are in accordance with Canadian Auditing Standards. No procedures are required to be carried out in addition to those necessary to form an opinion on Part I of Form 1.

4188. Test statements for a description of securities held in safekeeping

(1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* security position record and client statements accurately describe securities held in *safekeeping*.

4189. Dealer Member obligations to auditor

(1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.

(2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.

(3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

4190. Calculations for Form 1 and other reporting

(1) The *Dealer Member's auditor* must perform the procedures identified in the "Report on Compliance for Insurance, Segregation of Securities, and Guarantee/Guarantor Relationships Relied Upon to Reduce Margin Requirement During the Year" in Form 1 and report on the results as at the fiscal year-end audit date.

4191. Auditor's records

(1) The *Dealer Member's auditor* must retain a final copy of Form 1 and all audit working papers for six years.

(2) All audit working papers for the two most recent years must be readily accessible.

(3) The *Dealer Member's auditor* must make all working papers available for review by ~~*IIROC*~~the *Corporation* and the ~~*Canadian*~~ *Investor Protection Fund*.

4192. Auditor's obligation to report to ~~IIROC~~the Corporation

(1) If during the regular conduct of an audit, the *Dealer Member's auditor* observes any material breach of ~~*IIROC*~~*Corporation requirements* related to:

(i) calculating the *Dealer Member's* financial position,

(ii) handling and custody of securities, or

(iii) maintaining adequate *records*,

the *Dealer Member's auditor* must report that breach to ~~*IIROC*~~the *Corporation*.

(2) The *Dealer Member's auditor* must report on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member's risk adjusted capital* level.

4193. - 4199. Reserved.

RULE 4200 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

4201. Introduction

(1) Rule 4200 sets out the following *Dealer Member* general financial requirements:

Part A - Financial disclosure to clients
[sections 4202 through 4209]

Part B - General internal control requirements
[sections 4220 through 4225]

Part C - Pricing internal control requirements
[sections 4240 through 4244]

Part D - Calculation of prices on a yield basis
[sections 4260 through 4267]

Part E - Professional opinions
[sections 4270 through 4276]

PART A - FINANCIAL DISCLOSURE TO CLIENTS

4202. Introduction

(1) If a client so requests, a *Dealer Member* must disclose its financial position to the client to enable them to assess the *Dealer Member's* financial position. Part A of Rule 4200 sets out the requirements that a *Dealer Member* must comply with in order to present this information to the client in a complete and consistent manner.

4203. Summary statement of financial position available

(1) A *Dealer Member* must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

(2) The summary statement of financial position must be as at the *Dealer Member's* latest fiscal year-end date and based on its latest annual audited financial statements.

(3) A *Dealer Member* must prepare the summary statement of financial position within 75 days of its fiscal year-end.

4204. Summary statement of financial position - contents

(1) A *Dealer Member's* summary statement of financial position must contain material information including details of the *Dealer Member's* assets, liabilities and financial statement capital, and be generated using the Securities Industry Regulatory Financial Filings system.

4205. Audited or unaudited summary statement of financial position

(1) The summary statement of financial position must either be:

(i) audited and accompanied by:

(a) a report prepared by the *Dealer Member's auditor* stating that it fairly summarizes the financial position of the *Dealer Member*, and

(b) notes disclosures specified by the *Dealer Member's auditor*,

or

(ii) unaudited and:

(a) generated from within the Securities Industry Regulatory Financial Filings system using information from the most recent audited Form 1of the *Dealer Member*,

(b) certified by the *Dealer Member's Chief Financial Officer*, and

(c) accompanied by note disclosures that at a minimum describe, management's responsibility for the summary statement of financial position, and the basis of accounting and restriction on the use of the summary statement of financial position.

4206. Publishing a summary statement of financial position

(1) If a *Dealer Member* publishes or circulates a summary statement of financial position in any document, it must:

(i) be in the same form, and

(ii) contain the same information,

as the statement made available to the *Dealer Member's* clients.

4207. List of current Executives and Directors

(1) A *Dealer Member* must provide a current list of its *Executives* and *Directors*, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

4208. Disclosures available to clients

(1) A *Dealer Member* must state on each account statement sent to clients, or in another manner ~~*IIROC*~~the *Corporation* approves, that:

(i) its summary statement of financial position, and

(ii) list of *Executives* and *Directors,*

are available on request to any client who has traded in his or her account within the previous 12 months.

4209. Consolidated financial statements - similar named entity

(1) A *Dealer Member* must disclose its financial statements separately from those of any *affiliate* or *holding company* with a similar name.

(2) If a *Dealer Member's* accounts are included in the consolidated financial statements of its *holding company* or *affiliate* with a name similar to the *Dealer Member's*, and those consolidated financial statements are published or circulated in any document or other medium, then either:

(i) the consolidated financial statements must include a note indicating that:

(a) they relate to an entity that is not the *Dealer Member*, and

(b) although the statements include the *Dealer Member's* accounts, they are not the *Dealer Member's* financial statements,

or

(ii) at the time of publication or circulation, the *Dealer Member* must send to each client who has traded in his or her account within 12 months of the date of publication:

(a) its unconsolidated summary statement of financial position, and

(b) a letter explaining why the statement is being sent.

4210. - 4219. Reserved.

PART B - GENERAL INTERNAL CONTROL REQUIREMENTS

4220. Introduction

(1) Part B of Rule 4200 sets out ~~*IIROC*~~*Corporation requirements* for a *Dealer Member's internal controls* and risk management infrastructure. Effective *internal controls* will assist a *Dealer Member* not only in complying with ~~*IIROC*~~*Corporation requirements* and *securities laws* but also in conducting its business with integrity and due regard to the interests of its clients.

4221. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4200:

"detective controls"	Controls that discover, or increase the chances of finding, fraud or error, so the *Dealer Member* can take prompt corrective action.
"preventive controls"	Controls that prevent, or minimize the chances of, fraud and error.

4222. Adequate internal controls

(1) A *Dealer Member* must establish and maintain appropriate *internal controls*.

(2) The *Dealer Member's Executives* are responsible for ensuring adequate *internal controls* as part of their overall responsibility for managing the *Dealer Member's* operations.

(3) The *Dealer Member's Executives* must use best judgment in determining whether *internal controls* are adequate.

4223. Preventive controls

(1) When necessary, a *Dealer Member* must implement *preventive controls* based on the *Dealer Member's Executives'* view of the risk of loss and the cost-benefit relationship of controlling that risk.

4224. Written record

(1) A *Dealer Member* must maintain a detailed written *record* of its *internal controls*, including, at a minimum, the policies and procedures the *Dealer Member's Executives* have approved to provide reasonable assurance of compliance with all ~~*IIROC*~~*Corporation requirements* relating to *internal controls*.

4225. Review and written approval of internal controls

(1) The *Dealer Member's Executives* must review a *Dealer Member's internal controls* for adequacy and suitability at least annually and more frequently as necessary or stipulated by ~~*IIROC*~~*Corporation requirements*. They must approve a *Dealer Member's internal controls* in writing after each review.

4226. - 4239. Reserved.

PART C - PRICING INTERNAL CONTROL REQUIREMENTS

4240. Introduction

(1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that securities are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used.

4241. Pricing procedures

(1) A *Dealer Member* must consistently and accurately price all securities. In Part C of Rule 4200, references to securities include client and inventory securities and securities used in financing transactions such as security borrow and lend, *repurchase agreement* transactions and *reverse repurchase agreement* transactions.

(2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its "owned" and "sold short" security positions to ensure accurate profit and loss reporting in accordance with ~~*IIROC*~~*Corporation requirements*.

(3) A *Dealer Member*'s policies and procedures must specifically address consistently pricing securities and verifying prices of securities.

(4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in security *records* that it uses to prepare management reports for monitoring:

(i) securities inventory profit and loss,

(ii) its regulatory capital position, and

(iii) security *segregation*.

(5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports' preparation. Conflicted *employees* must not be involved in security pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

4242. Independent price verification and adjustment

(1) A *Dealer Member* must verify its security prices at each month-end by comparing them with independent (third-party) pricing sources.

(2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).

(3) An appropriate *Executive* must:

(i) on a monthly basis, approve the resolution of all material differences, and

(ii) on an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.

4243. Retention of supporting documents

(1) A *Dealer Member* must retain supporting documents to show that it has verified securities pricing and made appropriate adjustments.

4244. Access to records

(1) *Dealer Member employees* involved in securities trading must not have access to back-office security price *records*.

4245. - 4259. Reserved.

PART D - CALCULATION OF PRICES ON A YIELD BASIS

4260. Introduction

(1) Part D of Rule 4200 describes how to calculate a security price based on a security's current market yield.

4261. Definitions

(1) The following term has the meaning set out below when used in Part D Rule 4200:

"regular delivery date"	The settlement or delivery dates generally accepted in industry practice for a security in the market where the transaction occurs.

4262. Calculating price if no method is stated for calculating unexpired term

(1) When a *Dealer Member* quotes a bid or offer based on yield, and neither the buyer nor seller *Dealer Member* states a price or a method for calculating the unexpired term, the price must be established according to sections 4264 through 4267.

4263. Exceptions

(1) Sections 4264 through 4267 do not apply to trades in:

(i) Government of Canada bonds and bonds guaranteed by the Government of Canada,

(ii) Short-term bonds that have:

(a) an unexpired term to maturity of six months or less,

(b) an unexpired term-to-call date of six months or less and selling at, or at a premium over, the call price, or

(c) been called for redemption,

(iii) bonds callable on future dates at varying prices, and

(iv) bonds callable at the issuer's option if the call date is not stated and the bonds are selling at a premium over call price.

4264. Unexpired term - Bonds with unexpired terms to maturity up to and including 10 years

(1) For a bond with an unexpired term to maturity up to and including 10 years, calculate the unexpired term as the exact period in years, months, and days from the *regular delivery date*:

(i) to the maturity date of a non-callable bond or callable bond selling at less than the call price, and

(ii) to the first redemption date of a callable bond selling at, or at a premium over, the call price.

4265. Unexpired term - Bonds with unexpired terms to maturity over 10 years

(1) For a bond with an unexpired term to maturity of over 10 years, calculate the unexpired term as the period in years and months from the month in which the *regular delivery date* occurs:

(i) to the month and year of maturity of a non-callable bond or callable bond selling at less than the call price, and

(ii) to the first month and year that the bond is redeemable for a callable bond selling at, or at a premium over, the call price.

4266. Calculating the price and price precision

(1) In calculating the price, the unexpired term must be expressed as years. To express the unexpired term in years:

(i) one day shall be deemed to be 1/30th of one month, and

(ii) one month shall be deemed to be 1/12th of one year.

(2) For all bond transactions between *Dealer Members* and its clients where the price has been determined using the calculation approach set out in either section 4264 or 4265, the price must be extended to three decimal places of precision.

4267. New issues

(1) Part D of Rule 4200 applies to new issues. The unexpired term to maturity is to start on the date that accrued interest, which is charged to the client, is calculated up to.

4268. - 4269. Reserved.

PART E - PROFESSIONAL OPINIONS

4270. Introduction

(1) Part E of Rule 4200 sets requirements relating to *professional opinion* (defined in section 4271) standards.

4271. Definitions

(1) The following terms have the meanings set out below when used in Part E of Rule 4200:

"~~IIROC~~Corporation standards"	The disclosure standards in Part E of Rule 4200.
"disclosure document"	The same meaning as used in relevant *securities laws*.
"fairness opinion"	A report of a *valuer* that contains the *valuer's* opinion as to the fairness, from a financial point of view, of a transaction.
"formal valuation"	A report of a *valuer* that contains the *valuer's* opinion as to the value or range of values of the subject matter of the valuation.
"interested party"	The same meaning as used in relevant *securities laws.*
"prior valuation"	The same meaning as used in relevant *securities laws.*
"professional opinion"	A *formal valuation* or a *fairness opinion*.
"subject transaction"	Transactions including an insider bid, issuer bid, business combinations, or related party transaction as defined in relevant *securities laws.*
"valuer"	The person who provides a *professional opinion*.

4272. Application

(1) ~~IIROC~~The *Corporation* *standards* apply only to *professional opinions* that are prepared either:

(i) pursuant to a requirement of relevant *securities laws*, or

(ii) for the express purpose of publication in a *disclosure document* to be filed with any Canadian *securities regulatory authority* or delivered to security holders in connection with their consideration of the *subject transaction*.

(2) ~~IIROC~~The *Corporation* *standards* do not apply to *professional opinions* that are either:

(i) rendered in connection with transactions other than the *subject transactions*, whether or not they are reproduced or summarized in a *disclosure document*, or

(ii) reproduced or summarized in a *disclosure document* in compliance with relevant *securities laws* for the disclosure of *prior valuations* in respect of an issuer.

4273. General requirement

(1) A *Dealer Member's professional opinion* in connection with a *subject transaction* must comply with ~~IIROC~~the *Corporation* *standards*.

(2) A *Dealer Member's* compliance with ~~IIROC~~the *Corporation* *standards*:

(i) must not substitute the professional judgment and responsibility of the *valuer*,

(ii) will not be considered compliant if it is not exercised along with professional judgment and responsibility regarding disclosure in a *professional opinion*, and

(iii) may not be appropriate if its strict compliance is not justified using professional judgment and responsibility.

4274. General disclosure

(1) *Professional opinions* prepared in connection with the *subject transactions* must provide disclosure that:

(i) enables the directors and security holders of the particular issuer to understand the principal judgments and principal underlying reasoning of the *valuer* in its *professional opinion*, and

(ii) form a reasoned view on the valuation conclusion or the opinion as to fairness expressed therein.

(2) In reaching a valuation or fairness conclusion, a *Dealer Member* must consider certain information such as, valuation approach, definition of value, key assumptions. That information is described in Part E of Rule 4200 and may be important and required to be disclosed in a *professional opinion*.

(3) If the *Dealer Member* receives any expressions of concerns relating to its proposed disclosure in a *professional opinion* that contain competitively or commercially sensitive information regarding an *interested party* or issuer:

(i) The *Dealer Member* may seek a decision of the special committee of the issuer's independent directors as to whether the perceived detriment to an *interested party* outweighs the benefit of disclosure of such information to the readers of the *professional opinion*.

(ii) Compliance of the *Dealer Member* with any such decision of a special committee will constitute compliance with ~~*IIROC*~~the *Corporation standards* in respect of the matters that are the subject of the decision.

4275. Disclosure - formal valuations

(1) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in valuing other businesses in the same or similar industries as the business or issuer in question or similar transactions to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable securities involved in the *subject transaction*, and

(c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,

(ii) the date the *valuer* was first contacted in respect of the *subject transaction* and the date that the *valuer* was retained,

(iii) the financial terms of the *valuer's* retainer,

(iv) a description of any past, present or anticipated relationship between the *valuer* and any *interested party* or the issuer which may be relevant to the *valuer's* independence for purposes of relevant *securities laws*,

(v) the subject matter of the *formal valuation*,

(vi) the effective date of the *formal valuation*,

(vii) a description of any specific adjustments that have been made in the *valuer's* conclusions by reason of an event or occurrence after the effective date,

(viii) the scope and purpose of the *formal valuation*, including the following statement:

"This formal valuation has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of ~~the Investment Industry Regulatory Organization of Canada (IIROC)~~[Amalco] but ~~IIROC~~[Amalco] has not been involved in the preparation or review of this formal valuation",

(ix) a description of the scope of the review conducted by the *valuer*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *valuer*),

(x) a description of any limitation on the scope of review and the implications of such limitation on the *valuer's* conclusions,

(xi) a description of the business, assets or securities being valued sufficient to allow the reader to understand the valuation rationale and approach and the various factors influencing value that were considered,

(xii) definitions of the terms of value used in the *formal valuation* including but not limited to "fair market value", "market value" and "cash equivalent value",

(xiii) the valuation approach and methodologies considered, including:

(a) the rationale for valuing the business as a going concern or on a liquidation basis,

(b) the reasons for selecting a particular valuation methodology, and

(c) a summary of the key factors considered in selecting the valuation approach and methodologies considered,

(xiv) the key assumptions made by the *valuer*,

(xv) any distinctive material value that the *valuer* has determined might accrue to an *interested party*, whether this value is included in the value or range of values arrived at for the subject matter of the *formal valuation* and the reasons for its inclusion or exclusion,

(xvi) the following discussions or explanations:

(a) a discussion of any prior bona fide offers or *prior valuations* or other material expert reports considered by the *valuer* pertaining to the subject matter of the transaction, or

(b) if the *formal valuation* differs materially from any such *prior valuation*, an explanation of the material differences where reasonably practicable to do so based on the information contained in the *prior valuation* or, if it is not reasonably practicable to do so, the reasons why it is not reasonably practicable to do so,

and

(xvii) the valuation conclusions reached and any qualifications or limitations to which such conclusions are subject.

(2) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* in connection with a *subject transaction* must disclose the following:

(i) Annual financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity for the most recently completed fiscal year as well as from the statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in financial position for the immediately preceding fiscal year.

(ii) Interim financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the most recent interim statement of financial position (if any), statement of profit or loss and other comprehensive income and statement of changes in equity for the current fiscal year and the comparable statements for the same interim period of the immediately preceding fiscal year.

(iii) Discussion of historical financial statements or financial position

(a) The *professional opinion* must include comments on material items or changes in the issuer's financial statements together with appropriate commentary on items which may have particular relevance to the *professional opinion* including but not limited to unusual capital structures, unrecognized tax-loss carry forwards and redundant assets.

(iv) Future oriented financial information

(a) To the extent that the *valuer* has relied upon future-oriented financial information, the *valuer* must disclose the future-oriented financial information, at least in summary form, unless otherwise determined by a decision of the special committee referred to in section 4274.

(b) To the extent that the future-oriented financial information relied upon by the *valuer* varies materially from the future-oriented financial information provided to the *valuer* by the issuer or the *interested party*, the *valuer* must disclose the nature and extent of such differences and the rationale of the *valuer* supporting its judgments.

(v) Future oriented financial information assumptions

(a) To the extent that future-oriented financial information is relied upon (whether or not the future-oriented financial information itself is disclosed), key financial assumptions (such as sales, growth rates, operating profit margins, major expense items, interest rates, tax rates, depreciation rates), together with a brief statement supporting the rationale for each specific assumption, must also be disclosed, unless otherwise determined by a decision of the special committee referred to in section 4274.

(vi) Economic assumptions

(a) Any key economic assumptions having a material impact on the *professional opinion* must be disclosed, noting the authoritative source used by the *valuer*, including interest rates, exchange rates and general economic prospects in the relevant markets.

(vii) Valuation approach, methodologies and analysis

The *professional opinion* must set out:

(a) the valuation approach and methodologies adopted by the *valuer*,

(b) together with the principal judgments made in selecting a particular approach or methodology,

(c) a comparison of valuation calculations and conclusions arrived at through the different methods considered and the relative importance of each methodology in arriving at the overall valuation conclusion, and

(d) the information in clauses 4275(2)(viii) through 4275(2)(xii), if relevant for the valuation techniques used.

(viii) Discounted cash flow approach

(a) The *professional opinion* must include a discussion of all relevant qualitative and quantitative judgments used to calculate discount rates, multiples and capitalization rates.

(b) If the capital asset pricing model is used, disclosure must include the basis for determining the discount rate including the risk free rate, market risk premium, beta, tax rates and debt to equity capital structure assumed.

(c) The *valuer* must also disclose the basis for the determination of the terminal/residual value together with the underlying assumptions made.

(d) The source of the financial data which formed the basis of the discounted cash flow analysis, summary of major assumptions (if not already disclosed) and the details and sources of any economic statistics, commodity prices and market forecasts used in the valuation approach must also be disclosed.

(e) In addition, a summary of the sensitivity variables considered and the general results of the application of such sensitivity analysis must be disclosed along with an explanation of how such sensitivity analysis was used in the determination of the range of valuation estimates resulting from the discounted cash flow approach.

(f) Where the nature of the future-oriented financial information and the subject matter of the valuation make it reasonably practicable and meaningful to do so, selected quantitative sensitivity analyses performed by the *valuer* must be disclosed to illustrate the effects of variations in the key assumptions on the valuation results.

(g) In determining whether quantitative sensitivity analyses would be meaningful to the reader of the *professional opinion*, the *valuer* must consider whether such analyses adequately reflects the *valuer's* judgment concerning the inter-relationship of the key underlying assumptions.

(ix) Asset based valuation approach

(a) The *professional opinion* must separately disclose the values of each significant asset and liability including off-statement of financial position items (unless otherwise determined by a decision of the special committee referred to in section 4274).

(b) If a liquidation based valuation approach has been utilized, the *professional opinion* must set out the liquidation values for each significant asset and liability together with summary estimates for significant liquidation costs.

(x) Comparable transaction approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant transactions involving businesses the *valuer* considers similar or comparable to the business being valued.

(b) Adequate disclosure must include the date of the transaction, a brief descriptive note, and relevant multiples implicit in the transaction which may include: earnings before interest and taxes multiples; earnings before interest, taxes, depreciation and amortization multiples; earnings multiples; cash flow multiples; and book value multiples; and take-over premium percentages.

(c) In the body of the *professional opinion* there must be a discussion of such transactions together with an explanation as to how such transactions were used by the *valuer* in arriving at a valuation conclusion with regard to the comparable transaction approach.

(xi) Comparable trading approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant publicly traded companies the *valuer* considers similar or comparable to the business being valued.

(b) Adequate disclosure must include the date of the market data, the relevant fiscal periods for the comparable company, a brief descriptive note regarding the comparable company and relevant multiples implicit in the trading data which may include: earnings before interest and taxes multiples; earnings before interest, taxes depreciation and amortization multiples; earnings multiples, cash flow multiples; and book value multiples.

(c) In the body of the *professional opinion* there must be a discussion as to the comparability of such companies, together with an explanation as to how such data was used by the *valuer* in arriving at a valuation conclusion with regard to the comparable trading approach.

(xii) Valuation conclusions

(a) The *valuer* must develop a final valuation range by using a single valuation methodology or some combination of value conclusions determined under different methodologies/approaches.

(b) The *professional opinion* must include a comparison of the valuation ranges developed under each methodology and a discussion of the reasoning in support of the *valuer's* final conclusion.

4276. Disclosure - fairness opinion

(1) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in providing *fairness opinions* in connection with transactions similar to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable securities involved in the *subject transaction*, and

(c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,

(ii) the date the *Dealer Member* was first contacted in respect of the *subject transaction* and the date that the firm was retained,

(iii) the financial terms of the *Dealer Member's* retainer,

(iv) a description of any past, present or anticipated relationship between the *Dealer Member* and any *interested party* which may be relevant to the *Dealer Member's* independence for purposes of providing the *fairness opinion*,

(v) the scope and purpose of the *fairness opinion*, including the following statement:

"This fairness opinion has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of ~~the Investment Industry Regulatory Organization of Canada (IIROC)~~[Amalco] but ~~IIROC~~[Amalco] has not been involved in the preparation or review of this fairness opinion.",

(vi) the effective date of the *fairness opinion*,

(vii) a description of the scope of the review conducted by the *Dealer Member*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *Dealer Member*),

(viii) a description of any limitation on the scope of review and the implications of such limitation on the *Dealer Member's* opinion or conclusion,

(ix) a description of the relevant business, assets or securities sufficient to allow the reader to understand the rationale of the *fairness opinion* and the approach and various factors influencing financial fairness that were considered,

(x) a description of the valuation or appraisal work performed or relied upon in support of the *Dealer Member's* opinion or conclusion,

(xi) a discussion of any prior bona fide offer or *prior valuation* or other material expert report considered by the *Dealer Member* in coming to the opinion or conclusion contained in the *fairness opinion*,

(xii) the key assumptions made by the *Dealer Member*,

(xiii) the factors the *Dealer Member* considered important in performing its fairness analysis,

(xiv) the statement of opinion or conclusion as to the fairness, from a financial point of view, of the *subject transaction* and the supporting reasons, and

(xv) any qualifications or limitations to which the opinion or conclusion is subject.

(2) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* in connection with a *subject transaction* must include the following:

(i) a *fairness opinion* must include:

(a) a general description of any valuation analysis performed by the opinion provider, or

(b) specific disclosure of a valuation opinion of another *valuer* which is being relied upon,

(ii) the *fairness opinion* provider is not required to reach or disclose specific conclusions as to a valuation range or ranges in a *fairness opinion*,

(iii) the conclusion section of the *fairness opinion* must include specific reasons for the conclusion that the *subject transaction* is fair or not fair to security holders, from a financial point of view, and

(iv) support for each of these specific reasons described in clause 4276(2)(iii) must be contained in the body of the *professional opinion* in sufficient detail to allow the reader of the opinion to understand the principal judgments and principal underlying reasoning of the opinion provider in reaching its opinion as to the fairness of the transaction.

4277. - 4299. Reserved.

RULE 4300 | PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES

4301. Introduction

(1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

Part A.1 - General segregation requirements

[sections 4311 through 4314]

Part A.2 - Bulk segregation calculation

[sections 4315 through 4319]

Part A.3 - Security usage restrictions and correcting segregation deficiencies

[sections 4320 through 4326]

Part A.4 - Minimum segregation policies and procedures

[sections 4327 through 4332]

Part B - Custody and related internal control requirements:

Part B.1 - General custody requirements

[sections 4340 through 4343]

Part B.2 - Acceptable securities locations

[sections 4344 through 4352]

Part B.3 - Written custodial agreement requirement

[sections 4353 and 4354]

Part B.4 - Confirmation and reconciliation requirements

[sections 4355 through 4361]

Part B.5 - Margin requirements

[sections 4362 through 4368]

Part C - Client free credit balance requirements

[sections 4380 through 4386]

4302. - 4309. Reserved.

PART A - SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS

4310. Definitions

(1) The following terms have the meaning set out below when used in Part A of Rule 4300:

"bulk segregation"	Securities in *segregation* for a *Dealer Member's* clients that are not reserved for particular clients.
"net loan value"	Of a security means: (i) for a long position, the *market value* of the security less any margin required,

	(ii) for a short position, the *market value* of the security plus any margin required expressed as a negative number, and (iii) for a short security *option* position, the *market value* of the *option* plus any margin required expressed as a negative number.
"qualifying hedge position"	For all the accounts of each client: (i) a long position in a security, and, (ii) a short position in a security issued or guaranteed by the same issuer of the security in clause (i) of this definition, where: (iii) the long position is convertible to or exchangeable for securities of the same class and number of the securities held in the short position, and (iv) the *Dealer Member* is using the long position as collateral to cover the short position.
"segregated securities"	Securities held in *segregation* by a *Dealer Member* for a client.

PART A.1 - GENERAL SEGREGATION REQUIREMENTS

4311. Introduction

(1) The general *segregation* requirements set out the requirements for a *Dealer Member* to *segregate* client fully paid and excess margin securities.

4312. Fully paid and excess margin securities

(1) A *Dealer Member* holding fully paid or excess margin securities for a client must:

(i) *segregate* those securities, and

(ii) identify those securities as being held in trust for that client.

(2) A *Dealer Member* must not use securities held in *segregation* for its own purposes except with the express written approval of its client under the terms of a cash and securities loan agreement as detailed in section 5840.

(3) ~~*IIROC*~~The *Corporation* may prescribe how *segregated securities* are held, and how the amount or value of securities to be segregated must be calculated.

4313. Restricted and non-negotiable securities

(1) Securities that are restricted, non-negotiable, or that cannot be made fully negotiable solely by signature or *guarantee* of the *Dealer Member* are deemed not to be segregated, unless such securities are registered in the name of the client (or name of a *person* required by the client) on whose behalf they are being held in an acceptable *segregation* location.

4314. Segregation of client securities

(1) A *Dealer Member* holding *segregated securities* must:

(i) segregate those securities in bulk in accordance with sections 4315 through 4319, or

(ii) segregate specific securities for each client.

(2) A *Dealer Member* must not segregate in bulk client securities that are subject to a written *safekeeping* agreement.

PART A.2 - BULK SEGREGATION CALCULATION

4315. Steps for bulk segregation calculation

(1) A *Dealer Member* that segregates securities in bulk must, in accordance with sections 4316 through 4319:

(i) determine the *net loan value* and *market value* of securities held in a client's account,

(ii) calculate the number of *segregated securities* to be segregated in bulk,

(iii) determine the securities to use to satisfy *segregation* requirements, and

(iv) perform regular calculations and compliance reviews.

4316. Net loan value and market value of securities in a client's account

(1) A *Dealer Member* holding *segregated securities* in *bulk segregation* must determine for all securities held for all accounts of each client:

(i) the number of securities that are part of a *qualifying hedge position*,

(ii) the *net loan value* of securities (excluding securities that are part of a *qualifying hedge position*) less the aggregate debit cash balance in accounts (or plus in the case of a credit), and

(iii) the *market value* of securities (excluding securities that are part of a *qualifying hedge position*) not eligible for margin less the aggregate amount, if any, by which those accounts are under margined as calculated in clause 4316(1)(ii).

(2) A *Dealer Member* must segregate the *net loan value* of securities calculated in clause 4316(1)(ii) and the *market value* of securities calculated in clause 4316(1)(iii) for each client account.

(3) A *Dealer Member* is not required to segregate an amount of securities greater than the *market value* of the securities held for those accounts.

4317. Calculating the number of client securities to be segregated in bulk

(1) A *Dealer Member* that chooses to satisfy its *segregation* obligations under section 4312 by segregating in bulk must segregate in bulk for all its clients the number of securities calculated as follows:

(i) *Equities*

Number of securities required to be segregated	=	(aggregate loan value or *market value* of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or *market value* of one unit of the security)

(ii) *Debt securities*

Principal amount of securities required to be segregated	=	(aggregate loan value or *market value* of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or *market value* of each $100 principal amount of the security) x 100, rounded to lowest issuable denomination

4318. Determining securities to comply with segregation requirements

(1) A *Dealer Member* may choose any securities from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid securities in a cash account be segregated before unpaid securities.

(2) A *Dealer Member* that sells securities required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) Securities required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any securities by that client until settlement or value date.

4319. Frequency and review of bulk segregation calculation

(1) At least twice weekly, a *Dealer Member* must determine the securities required to be segregated according to the calculations in Part A.2 of Rule 4300.

(2) A *Dealer Member* must conduct a daily review of securities *segregated* for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the *Dealer Member* must correct it in accordance with the requirements of sections 4320 through 4326.

PART A.3 - SECURITY USAGE RESTRICTIONS AND CORRECTING SEGREGATION DEFICIENCIES

4320. General restrictions

(1) A *Dealer Member* must:

(i) ensure that a *segregation* deficiency is not knowingly created or increased, and

(ii) not deliver securities it holds against payment for the account of any client if those securities are required to satisfy the *Dealer Member's segregation* requirements.

4321. Correcting segregation deficiencies

(1) If any *segregation* deficiency exists, the *Dealer Member* must promptly take the most appropriate action necessary to correct the deficiency.

(2) Common deficiencies and appropriate remedial actions include, but are not limited to, those in sections 4322 through 4326.

4322. Call loan segregation deficiency

(1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the securities within the *business day* following the day it determines the deficiency exists.

4323. Securities loan segregation deficiency

(1) A *Dealer Member* that determines it has a securities loan *segregation* deficiency must:

(i) recall the securities from the borrower, or

(ii) borrow the same issue of securities to cover the deficiency,

within the *business day* following the day it determines the deficiency exists.

(2) If the *Dealer Member* has not received the securities within five *business days* following the day it determines the deficiency exists, it must undertake to buy-in the securities.

4324. Inventory or trading account short position segregation deficiency

(1) A *Dealer Member* that determines it has an inventory or trading account short position *segregation* deficiency must:

(i) borrow the same issue of securities to cover the deficiency within the *business day* following the day it determines the deficiency exists, or

(ii) undertake to purchase the same issue of securities immediately.

4325. Client declared short sales segregation deficiency

(1) A *Dealer Member* that determines it has a client declared short sale *segregation* deficiency must:

(i) borrow the same issue of securities to cover the deficiency within the *business day* following the day it determines the deficiency exists, or

(ii) undertake to buy-in the same issue of securities within five *business days* following the day it determines the deficiency exists.

4326. Fails – client or other Dealer Members

(1) If a *Dealer Member* has failed to receive securities within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:

(i) borrow the same issue of securities to cover the deficiency, or

(ii) undertake to buy-in the securities.

PART A.4 - MINIMUM SEGREGATION POLICIES AND PROCEDURES

4327. General

(1) A *Dealer Member* must, at a minimum, comply with the policies and procedures for *segregated securities* in sections 4328 through 4332 and the supervision requirements in Rule 3900.

4328. Records of segregated securities

(1) *Segregated securities* must be described as being held in *segregation* on a *Dealer Member's* security position record (or related *records*) and client ledger and statement of account. This description must be in substance a fair representation of how the securities are being held in *segregation* at the custodian and therefore, the security box locations of the *Dealer Member* must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the *Dealer Member*.

4329. Twice-weekly report of items requiring segregation

(1) A *Dealer Member* must produce a *segregation* report at least twice weekly.

4330. Reporting segregation deficiency

(1) A *Dealer Member* must set reasonable guidelines so that any material *segregation* deficiency is reported promptly to the *Dealer Member's* appropriate *Executives*.

4331. Authorized employees to move securities

(1) A *Dealer Member* must limit who can move *segregated securities* into or out of *segregation* to only authorized *employees*.

4332. Daily supervisory review of segregation report

(1) A *Dealer Member* must do a daily supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.

(2) A *Dealer Member* must do a supervisory review or adopt and implement other procedures that provide reasonable assurance the *segregation* report is complete and accurate.

4333. - 4339. Reserved.

PART B - CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS

PART B.1 - GENERAL CUSTODY REQUIREMENTS

4340. Introduction

(1) A *Dealer Member* takes on certain operational risks when it has custody of securities. These risks arise in connection with the location where and by whom the securities are held and whether a *Dealer Member* has adequate *internal controls* to deal with these risks. Part B of Rule 4300 prescribes ~~*IIROC*~~*Corporation requirements* for managing the risks related to securities custody. As these risks are quantifiable, they are treated as margin charges when calculating *Dealer Member risk adjusted capital.* This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

4341. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4300:

"external acceptable securities location"	An *acceptable securities location* for securities that are not under a *Dealer Member's* physical possession but which are under a *Dealer Member's* control.
"internal acceptable securities location"	An *acceptable securities location* for securities that are in a *Dealer Member's* physical possession or physical control. *Internal acceptable securities locations* include acceptable transfer locations.
"set-off risk"	The risk exposure resulting when a *Dealer Member* has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the securities held by the custodian.

4342. Hold securities in an acceptable securities location

(1) A *Dealer Member* must hold securities, including book-based securities, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as "*acceptable securities locations*".

4343. Timely deposit

(1) A *Dealer Member* must deposit securities requiring *segregation* in an *acceptable securities location* on a timely basis.

PART B.2 - ACCEPTABLE SECURITIES LOCATIONS

4344. Acceptable internal storage location

(1) Securities in a *Dealer Member's* physical possession must be held in an internal storage location that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

4345. Acceptable internal storage location requirements

(1) A *Dealer Member's* internal storage location must:

(i) be subject to ongoing adequate *internal controls* and systems for safeguarding securities, and

(ii) hold all unencumbered security positions in the physical possession of the *Dealer Member*.

4346. Acceptable transfer locations

(1) Securities in transfer must be in the possession of a registered or recognized transfer agent and a *Dealer Member* must comply with the applicable confirmation requirements in sections 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

4347. Securities not under a Dealer Member's physical possession

(1) Securities not under a *Dealer Member's* physical possession but which are under a *Dealer Member's* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

4348. Entities that may be external acceptable securities locations

(1) Entities that may be *external acceptable securities locations* must comply with ~~*IIROC*~~the *Corporation's requirements* prescribed in Rule 4300 and in Form 1. In Form 1, the entities that may qualify as *"acceptable securities locations"* are grouped into eight categories: depositories and clearing agencies, *acceptable institutions* and subsidiaries of *acceptable institutions*, *acceptable counterparties*, banks and trust companies, mutual funds or their agents, *regulated entities*, foreign institutions and foreign securities dealers, and entities considered suitable to hold London Bullion Market Association gold and silver good delivery bars.

4349. Approval of foreign institutions and foreign securities dealers

(1) To obtain ~~*IIROC*~~the *Corporation's* approval of a foreign institution or foreign securities dealer as an *acceptable securities location*, a *Dealer Member* must:

(i) perform due diligence,

(ii) approve the foreign institution or securities dealer as an *external acceptable securities location*, and

(iii) complete a certificate in the form prescribed by ~~*IIROC*~~the *Corporation* evidencing its due diligence and approval.

4350. Application to ~~IIROC~~the Corporation for approval of foreign institutions and foreign securities dealers

(1) A *Dealer Member* must apply in writing to ~~*IIROC*~~the *Corporation* for review and approval of a foreign institution or foreign securities dealer as an *acceptable securities location*.

(2) Prior to submission to ~~IIROC~~the *Corporation* the application must be approved by the *Dealer Member's* board of directors or by a committee of the *Dealer Member's* board of directors.

(3) The application to ~~IIROC~~the *Corporation* must include the following:

Document	Contents	Form (if ~~IIROC~~Corporation prescribed)
1. Foreign custodian certificate	1. *Dealer Member* responses to custodian due diligence questions 2. *Dealer Member* certification of approval of foreign custodian as a location for holding securities	In a form satisfactory to ~~IIROC~~the *Corporation*
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C$150 million	

4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

(1) For a foreign institution or foreign securities dealer to continue to be an *acceptable securities location*, the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must annually:

(i) approve in writing the foreign institution or foreign securities dealer, and

(ii) complete and sign a foreign custodian certificate for the foreign institution or foreign securities dealer.

(2) The *Dealer Member* must file the foreign custodian certificate with ~~IIROC~~the *Corporation*.

(3) The annual approval by the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must be given as follows:

Document	Contents	Notes
Dealer Member's board material and foreign custodian certificate	*Dealer Member* board's or committee of the *Dealer Member* board's annual written approval of foreign custodian as foreign location for holding securities	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination of the *Dealer Member*

(4) Without this written approval and filed foreign custodian certificate, the location is a non-acceptable securities location.

4352. Obtaining a client waiver when an external acceptable securities location is unavailable

(1) If a *Dealer Member* holds client securities in a foreign jurisdiction where:

(i) *applicable laws* and circumstances may restrict the transfer of securities from that jurisdiction, and

(ii) the *Dealer Member* cannot arrange to hold the client's securities in the jurisdiction at an *external acceptable securities location*,

the *Dealer Member* must obtain a waiver from the client.

(2) The client's waiver in approved form must be obtained for each transaction.

(3) In the waiver, the client must:

(i) consent to the arrangement,

(ii) acknowledge the risks associated with holding securities at the specified foreign custodian on behalf of the *Dealer Member* in the specified country, and

(iii) waive any claims it may have against the *Dealer Member* and hold the *Dealer Member* harmless if the foreign custodian loses the securities.

(4) On obtaining the waiver, a *Dealer Member* may hold those client securities at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

PART B.3 - WRITTEN CUSTODIAL AGREEMENT REQUIREMENT

4353. Agreement with each external securities location

(1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:

(i) the *Dealer Member* must give prior written consent to any use or disposal of the securities,

(ii) security certificates can be delivered promptly on demand or, if certificates are not available and the securities are book-based, must be transferable either from the location or to another *person* at the location promptly on demand,

(iii) the securities are held in *segregation* for the *Dealer Member* or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian, and

(iv) the custodian indemnifies the *Dealer Member* against losses due to the custodian's failure to return any securities or property it holds to the *Dealer Member*. However, the custodian's liability is limited to the *market value* of the securities and property at the time it was required to deliver them to the *Dealer Member*.

When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

(a) meet standard industry practice,

(b) be legally enforceable, and

(c) be of sufficient scope and in a form that is acceptable to ~~*IIROC*~~the *Corporation*.

4354. Bare trustee custodial agreement

(1) For book-based security holdings in which a *Dealer Member* does not have a written custodial agreement with an *external acceptable securities location*, the *Dealer Member* is in compliance

with section 4353 if ~~*IIROC*~~the *Corporation*, as bare trustee for *Dealer Members*, has an approved form of custodial agreement with the custodian.

PART B.4 - CONFIRMATION AND RECONCILIATION REQUIREMENTS

4355. Securities in transit

(1) If securities are in transit between internal storage locations:

(i) for which there are no adequate *internal controls* maintained, or

(ii) for more than five *business days*,

those securities are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation*.

4356. Confirmations from external acceptable securities locations

(1) A *Dealer Member* must receive a positive confirmation of all securities positions annually at its fiscal year-end audit date from each *external acceptable securities location*.

(2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a securities position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

4357. Confirmations from transfer locations in Canada

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location in Canada, the *Dealer Member* must receive those securities within 20 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 20 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 45 *business days* of delivery.

(3) If the position remains unconfirmed after 45 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4358. Confirmations from transfer locations in the United States

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location in the United States, the *Dealer Member* must receive those securities within 45 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 45 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 70 *business days* of delivery.

(3) If the position remains unconfirmed after 70 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4359. Confirmations from transfer locations outside Canada and the United States

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location outside Canada and the United States, the *Dealer Member* must receive those securities within 70 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 70 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 100 *business days* of delivery.

(3) If the position remains unconfirmed after 100 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4360. Confirmations of stock dividends receivable and stock splits

(1) If a *Dealer Member* has not received the securities from a declared stock dividend or stock split within 45 *business days* of the date receivable, the *Dealer Member* must obtain written confirmation of the position receivable.

(2) If the position remains unconfirmed after 45 *business days*, the *Dealer Member* must transfer the position to its difference account.

4361. Reconcile records for mutual funds and evidences of deposit

(1) A *Dealer Member* must, at least monthly, reconcile its *records* of securities consisting of mutual funds and evidences of deposit with *records* provided by the issuing mutual fund or financial institution.

PART B.5 - MARGIN REQUIREMENTS

4362. Acceptable securities location

(1) For securities a *Dealer Member* holds at an *acceptable securities location*, custodial related margin requirements only apply to unresolved differences.

4363. Margin charges – non-acceptable securities location

(1) For securities a *Dealer Member* holds at a non-acceptable securities location, additional margin requirements prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4352.

4364. Non-acceptable internal storage and non-acceptable securities location

(1) If securities are:

(i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, or

(ii) not under a *Dealer Member's* physical possession and are held at a non-acceptable securities location because:

(a) the location does not meet the criteria for an *internal acceptable securities location* as specified in section 4345, or

(b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or

(c) there is no annual written approval of a foreign institution or foreign securities dealer as an *acceptable securities location* as specified in section 4351,

then, when it calculates *risk adjusted capital,* a *Dealer Member* must deduct 100% of the *market value* of securities held in custody with the non-acceptable securities location.

4365. No confirmation from securities location

(1) Security positions where the *Dealer Member* has not received:

(i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,

(ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or

(iii) a confirmation of a related stock split or stock dividend under subsection 4360(2)

are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* and must be transferred to a *Dealer Member's* difference account.

(2) For difference account positions in subsection 4365(1), the *Dealer Member* must:

(i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the security position *market value* and the normal inventory margin, and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4366. No written custodial agreement

(1) If a *Dealer Member* does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an *acceptable securities location*, it must provide margin on the security positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).

(2) Dealer Member has no *set-off risk* with the custodian

(i) If the *Dealer Member* has no *set-off risk* with the custodian, in determining its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement 10% of the *market value* of the securities held in custody at the custodian.

(3) Dealer Member has *set-off risk* with the custodian

(i) If the *Dealer Member* has *set-off risk* with the custodian, in determining:

(a) its *risk adjusted capital*, the *Dealer Member* must deduct as a margin requirement the lesser of:

(I) 100% of the *set-off risk* exposure, and

(II) 100% of the *market value* of the securities held in custody

and

(b) its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement the lesser of:

(I) 10% of the *market value* of securities held in custody at the custodian, and

(II) 100% of the *market value* of securities held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

4367. Records - reconciliation

(1) If a *Dealer Member* reconciles its *records* to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4361, the *Dealer Member* must provide margin based on the requirements in Form 1, Statement B, Line 22, Notes and Instructions for any unresolved differences.

(2) If a *Dealer Member* does not reconcile its *records* with files or statements received from mutual funds, or financial institutions for evidences of deposit, it must:

(i) in determining its *risk adjusted capital*, deduct as a margin requirement for unresolved differences an amount equal to:

(a) 10% of the *market value* of the securities, where there have been no transactions in the securities, other than redemptions and transfers, for at least six months and no loan value has been given on the securities, or

(b) 100% of the *market value* of the securities,

and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4368. Difference accounts

(1) A *Dealer Member* must maintain a difference or suspense account to record all securities not received due to unreconcilable differences or errors in any accounts.

(2) If a *Dealer Member* has not received the securities recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:

(i) borrow the same class or series of securities to cover the deficiency, or

(ii) undertake to purchase the securities immediately.

4369. - 4379. Reserved.

PART C - CLIENT FREE CREDIT BALANCE REQUIREMENTS

4380. Introduction

(1) Part C of Rule 4300 restricts a *Dealer Member's* use of clients' *free credit balances* in its business.

4381. Definitions

(1) The following term has the meaning set out below when used in Part C of Rule 4300:

"net allowable assets"	A *Dealer Member's* net allowable assets calculated in Statement B of Form 1.

4382. Dealer Member's use of client free credit balances

(1) A *Dealer Member* may use its clients' *free credit balances* in its business only in accordance with Part C of Rule 4300.

4383. Notation on client account statements

(1) A *Dealer Member* that does not keep its clients' *free credit balances*:

(i) *segregated* in trust for clients in an account with an *acceptable institution,* and

(ii) separate from other money the *Dealer Member* receives, must clearly write the following or equivalent on all statements of account it sends to clients:

"Any free credit balances represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business."

4384. Calculating usable free credit balances

(1) A *Dealer Member* must not use in its business an amount of clients' *free credit balances* that totals more than the greater of:

(i) general free credit limit:

twelve times the *Dealer Member's early warning reserve* amount, or

(ii) margin lending adjusted free credit limit:

twenty times the *Dealer Member's early warning reserve* amount for margin lending purposes plus twelve times the remaining *early warning reserve* amount for all other purposes, where the remaining *early warning reserve* amount equals the *early warning reserve* amount minus 1/20th of the total settlement date client margin debit amount.

(2) A *Dealer Member* must segregate clients' *free credit balances* in excess of the amount calculated in subsection 4384(1) either:

(i) in cash held in trust for clients in a separate account with an *acceptable institution*, and this trust property must be clearly identified as such at the *acceptable institution* or

(ii) in ~~Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills, and other securities with a maturity of one year or less of, or guaranteed by, the Government of Canada, a province of Canada, the United Kingdom, the United States, or any other national foreign government that is on the List of Basel Accord Countries (provided such other foreign government securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively).~~the following securities:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
	~~As described in IIROC Notice 21-0028, effective September 1, 2022, clause 4384(2)(ii) will be repealed and replaced with the following:~~		
1.	~~(ii) in~~Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following ~~securities~~: ~~Securities eligible for client free~~ ~~Category~~	Not applicable (N/A)	Not applicable (N/A)

	~~1.~~ ~~Bonds, debentures, treasur bills and other securities wi term of 1 year or less, issue guaranteed by the followin~~ ~~• national governments Canada, United Kingdo and United States~~ ~~• Canadian provincial governments~~			
	~~2.~~ ~~Bonds, debentures, treasur bills and other securities wi term of 1 year or less, issue guaranteed by any other national foreign governmer not identified in category 1~~			~~t be~~
	~~3.~~ ~~Canadian bank paper with a original maturity of 1 year o less~~			~~ule~~
	• national governments of Canada, United Kingdom, and United States • Canadian provincial governments			
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government must be a member of the Basel Accord	
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No *designated rating organization* has a lower current credit rating Must be issued by a Canadian *chartered bank* Securities issued by a provider of capital, as defined in Form 1, Schedule 14, are not eligible	

4385. Weekly calculation

(1) At least weekly, but more frequently if required, a *Dealer Member* must calculate the amounts that must be segregated under section 4384.

4386. Daily compliance review

(1) Every day, a *Dealer Member* must compare the amount of client *free credit balances* it has segregated to the amount subsection 4384(2) requires to be segregated.

(2) A *Dealer Member* must identify and correct any deficiency in amounts of *free credit balances* required to be *segregated* within five *business days* following the determination of the deficiency.

4387. - 4399. Reserved.

RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND SECURITIES, AND INSURANCE

4401. Introduction

(1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Safekeeping requirements
[sections 4402 through 4407]

Part B - Internal controls requirements for safeguarding cash and securities
[sections 4420 through 4433]

Part C - Insurance requirements
[sections 4450 through 4468]

PART A - SAFEKEEPING REQUIREMENTS

4402. Introduction

(1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

4403. Written safekeeping agreement

(1) A *Dealer Member* with securities held for *safekeeping* must have a written *safekeeping* agreement with each client it holds securities for.

4404. Securities free from encumbrance

(1) A *Dealer Member* must keep securities held for *safekeeping* free from any encumbrance.

4405. Procedures to keep securities apart

(1) A *Dealer Member* must keep securities held for *safekeeping* separate from all other securities and must have procedures in place to ensure this separation.

4406. Identifying securities held for safekeeping in records

(1) A *Dealer Member* must specifically identify and record securities held for *safekeeping* in its securities position *records* and client's ledger and statement of account.

4407. Release of securities held in safekeeping

(1) A *Dealer Member* may release securities held for *safekeeping* to others only when the client so instructs.

4408. - 4419. Reserved.

PART B - INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH AND SECURITIES

4420. Introduction

(1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

4421. Safeguarding client and Dealer Member cash and securities

(1) A *Dealer Member* must safeguard its clients' and its own cash and securities:

(i) to protect them against material loss, and

(ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis.

(2) A *Dealer Member*'s policies and procedures must specifically address the minimum requirements for safeguarding cash and securities as described in sections 4422 through 4433.

(3) ~~*IIROC*~~The *Corporation* recognizes that a *Dealer Member* with a small operation may be unable to comply with Rule 4400 requirements to segregate duties. If these minimum requirements are inappropriate because of a *Dealer Member's* small size, it must implement alternative control procedures that ~~*IIROC*~~the *Corporation* approves.

4422. Receipt and delivery of securities

(1) *Employees* who receive and deliver physical securities must not have access to the *Dealer Member's* security *records*.

(2) The *Dealer Member* must handle securities in a restricted and secure area.

(3) The receipt and delivery of securities must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers).

(4) A *Dealer Member* using mail service must send negotiable certificates by registered mail.

(5) A *Dealer Member* must obtain signed receipts from the client or agent for all securities not delivered against payment.

4423. Restricting access to securities

(1) Only designated *employees* may physically handle securities.

(2) Securities must be physically handled only in a restricted and secure area.

(3) Only *employees* not involved in maintaining or balancing *Dealer Member records* may handle physical securities.

4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.

(3) A *Dealer Member* must take prompt action to correct differences in its *records*.

(4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account security position to settle a short "pro" sale unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a cash and security loan agreement,

that has been executed in accordance with ~~*IIROC*~~*Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

4425. Protecting securities

(1) A *Dealer Member* must assess the risk of any securities location that holds securities for it and for the accounts of its clients.

(2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository *records* (for instance, transfers between the "free" and "seg" boxes).

(3) At least monthly, a *Dealer Member* must reconcile its *records* of security and other asset positions to the custodian's *records* where securities are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.

(4) A *Dealer Member* must have a proper written custody agreement with each custodian where securities are held.

4426. How to handle security records

(1) *Employees* maintaining and balancing securities *records* must not be involved in handling physical securities.

(2) A *Dealer Member* must promptly update its securities *records* to reflect changes in location and ownership of securities under its control.

(3) Journal entries made to securities *records* must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

4427. Rules for counting securities

(1) At least once a year, a *Dealer Member* must count physical securities held:

(i) in *segregation*, and

(ii) for *safekeeping,*

in addition to its annual external audit physical security count.

(2) At least monthly, a *Dealer Member* must count physical securities held in current boxes.

(3) Only *employees* who do not handle securities may conduct physical security counts.

(4) Count procedures must include all physical securities held in the box location subject to the count and must simultaneously verify related positions such as positions in transit or in the process of being transferred.

(5) During a physical security count, both the description of the security and the quantity must be compared to the *Dealer Member's records*. Any discrepancies must be investigated and corrected

promptly. Positions not reconciled within a reasonable period must be promptly reported to the *Dealer Member's* appropriate *Executives* and accounted for.

4428. Moving certificates and securities between branches

(1) A *Dealer Member* must record the location of certificates in transit between its offices in separate transit accounts on its security position *records*. The *Dealer Member* must reconcile these accounts monthly.

(2) When securities are in transit, a *Dealer Member* must book out the securities from the branch account and book them into the transit account. When the securities are physically received at a branch, the *Dealer Member* must book them out of the transit account and into the receiving branch's account.

(3) The receiving branch must check securities received against the accompanying transit sheet.

(4) The methods of transportation a *Dealer Member* chooses for securities in transit must:

(i) comply with insurance policy terms, and

(ii) take into account the value, negotiability, urgency, and cost factors.

4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all securities sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name. Only fully-paid securities (new issues excepted) may be transferred into a name other than the *Dealer Member's* name.

(3) The transfer department may carry out transfers only when it receives a properly authorized request.

(4) A *Dealer Member's* security position *record* must record, and name them as, "securities out for transfer".

(5) A *Dealer Member* must have a receipt for a securities position at a transfer agent.

(6) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving securities from transfer agents.

(7) Authorized *employees* handling transfers must not have other security cage functions such as deliveries, or the management of current box and segregated box positions.

4430. Re-organization

(1) A *Dealer Member* must have a formal procedure to identify and record the timing and terms of all issuances such as forthcoming rights and offers.

(2) A *Dealer Member* must have a clear method of communicating upcoming re-organization activities to the sales force. These include deadlines for submitting special instructions in writing and any special handling procedures required for key dates.

(3) An authorized *employee* or department must have clear responsibility for organizing and handling each offer.

(4) A *Dealer Member* must clearly define procedures to balance positions daily and to physically control securities.

(5) A *Dealer Member* must regularly reconcile and review suspense accounts involving offers and splits.

4431. Handling dividends and interest

(1) A *Dealer Member* must have a system to record the total dividends and interest payable and receivable at due date.

(2) Dividend and interest record keeping *employees* must not handle cash or authorize payments.

(3) At least monthly, a *Dealer Member* must:

(i) reconcile dividend and interest accounts, and

(ii) review aged dividend receivables.

(4) Only the department manager or another appropriate manager may authorize dividend and interest write-offs.

(5) The department manager or another appropriate manager must approve journal entries to and from dividend and interest accounts.

(6) A *Dealer Member*:

(i) must not pay dividend claims, other than as part of an automatic settlement system, unless accompanied by supporting documents such as proof of registration, and

(ii) must compare supporting documents with internal *records* for validity and then have the department manager or another appropriate manager approve them.

(7) A *Dealer Member* must withhold non-resident tax when required by law.

(8) Where required by *applicable laws*, a *Dealer Member* must ensure client income is appropriately reported for income tax purposes.

4432. Reconciling internal accounts

(1) At least monthly, a *Dealer Member* must reconcile internal accounts.

(2) A department manager or another appropriate manager must review the reconciliation.

4433. Cash

(1) The department manager or another appropriate manager must review and approve all bank reconciliations.

(2) At least monthly, a *Dealer Member* must reconcile bank accounts in writing, identifying and dating all reconciling items.

(3) Journal entries to clear reconciling items must be made on a timely basis and approved by a department manager or another appropriate manager.

(4) Bank accounts must be reconciled by *employees* who do not have:

(i) access to funds, either receipts or disbursements, or

(ii) access to securities, or

(iii) record keeping responsibilities that include the authority to write or approve journal entries.

(5) An appropriate *Executive* must establish criteria for approving the requisition of a cheque.

(6) Cheques must be pre-numbered, and a *Dealer Member* must account for numerical continuity.

(7) Cheques must be signed by two authorized *employees*.

(8) The authorized *employees* must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque.

(9) A *Dealer Member* must limit and supervise access to any facsimile signature machine.

4434. - 4449. Reserved.

PART C - INSURANCE REQUIREMENTS

4450. Introduction

(1) Part C of Rule 4400 requires a *Dealer Member* to have enough insurance to protect against potential losses from theft, fraudulent acts, and other losses.

4451. Definitions

(1) The following terms have the meanings set out below when used in Part C of Rule 4400:

"base amount"	The greater of: (i) the aggregate client net equity for all client accounts, where net equity for each client is the excess, if any, of the total value of cash, securities, and *other acceptable property* the *Dealer Member* owes to the client over the total value of cash, securities, and *other acceptable property* the client owes to the *Dealer Member*, and (ii) the aggregate *Dealer Member* liquid and other allowable assets calculated in accordance with Form 1, Statement A.
"other acceptable property"	The same meaning as set out in Schedule 10 of Form 1.
"standard form financial institution bond"	The standard form of Financial Institution Bond insurance coverage a *Dealer Member* must obtain.

4452. Dealer Member must have insurance

(1) A *Dealer Member* must have and maintain insurance:

(i) against the types of loss, and

(ii) with at least the minimum amount of coverage,

as prescribed in Part C of Rule 4400.

4453. Qualified insurance carriers

(1) A *Dealer Member* must obtain and maintain insurance underwritten by either:

(i) an insurer registered or licensed under the laws of Canada or a province of Canada, or

(ii) a foreign insurer ~~*IIROC*~~the *Corporation* has approved.

4454. Foreign insurers

(1) To obtain ~~*IIROC*~~*Corporation* approval, a foreign insurer must:

(i) have a minimum net worth of $75 million on its last audited statement of financial position,

(ii) have financial information acceptable to, and available for inspection by, ~~*IIROC*~~the *Corporation*, and

(iii) satisfy ~~*IIROC*~~the *Corporation* that it is subject to supervision by regulatory authorities in its incorporation jurisdiction that is substantially similar to a Canadian insurance company's supervision.

4455. Mail insurance

(1) A *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.

(2) If a *Dealer Member* delivers a written promise to ~~*IIROC*~~the *Corporation* that it will not use registered mail for outgoing shipments of securities, ~~*IIROC*~~the *Corporation* may exempt the *Dealer Member* from the requirement in subsection 4455(1).

4456. Financial institution bond

(1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:

(i) **Fidelity** - Any loss, including loss of property, from a dishonest or fraudulent act of a *Dealer Member's employees*:

(a) committed anywhere, and

(b) committed alone or with others.

(ii) **On premises -** Any loss of money, securities, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of:

(a) the insured's offices,

(b) a banking institution's offices,

(c) a clearing house, or

(d) a recognized place of safe-deposit,

all as defined in the *standard form financial institution bond*.

(iii) **In transit -** Any loss of money and negotiable or non-negotiable securities or other property, while in transit. The value of securities in transit in an *employee's* or *agent's* custody must not exceed the protection under this clause. In transit coverage must be calculated on a dollar for dollar basis. A *Dealer Member* must provide, for ~~*IIROC*~~*Corporation* approval, a list of exceptions to the money, securities, or other property protected under this clause.

(iv) **Forgery or alterations -** Any loss through forgery or alteration of any:

(a) cheques,

(b) drafts,

(c) promissory notes, or

(d) other written orders or directions to pay sums in money,

excluding securities, as defined in the *standard form financial institution bond*.

(v) **Securities -** Any loss:

(a) through the purchase, acquisition, sale, delivery, extension of credit, or action on securities or other written instruments which prove to have been:

(I) forged,

(II) counterfeited,

(III) raised or altered, or

(IV) lost or stolen,

or

(b) due to having guaranteed in writing or having witnessed any signatures on any transfers, assignments or other documents or written instruments, as defined in the *standard form financial institution bond*.

4457. General minimum insurance requirement

(1) Self-clearing and Type 3 and Type 4 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $500,000, and

(ii) 1% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

4458. Minimum insurance requirement for certain introducing brokers

(1) Type 1 and Type 2 *Introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $200,000 for a Type 1 *introducing broker* arrangement or $500,000 for Type 2 *introducing broker* arrangement, and

(ii) ½% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

4459. Double aggregate limit

(1) A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

4460. Calculating minimum insurance requirement and risk adjusted capital provisions

(1) Every month, a *Dealer Member* must calculate its required minimum insurance coverage and file Schedule 10 of Form 1 with its monthly financial report.

(2) In calculating minimum insurance coverage requirements, a *Dealer Member* must treat non-negotiable and negotiable form securities as the same.

(3) When calculating its *risk adjusted capital* amount, a *Dealer Member* must provide capital for the amount of its insurance deductible.

4461. Correction of insufficient coverage

(1) If a *Dealer Member* has less coverage than the calculated minimum insurance requirement coverage and the deficiency:

(i) is less than 10% of the minimum insurance requirement, the *Dealer Member* must correct the deficiency within two months of the filing date of the monthly financial report within which the deficiency was reported, or

(ii) is 10% or more of the insurance requirement, the *Dealer Member* must promptly notify ~~*IIROC*~~the *Corporation* and correct the deficiency within 10 days of identifying it.

4462. Global financial institution bonds

(1) If a *Dealer Member* maintains insurance under Part C of Rule 4400 that names the insured as, or that benefits, the *Dealer Member* and any other *person*, then:

(i) the *Dealer Member* must have the right to claim directly against the insurer for losses, and payment or satisfaction of losses must be made directly to the *Dealer Member*, and

(ii) the individual or aggregate limits under the *standard form financial institution bond* may only be affected by claims made by or for:

(a) the *Dealer Member*,

(b) the *Dealer Member's subsidiaries* whose financial results are consolidated with the *Dealer Member's*, or

(c) the *Dealer Member's holding company*, if the *holding company* does not carry on any business or own any investments other than its interest in the *Dealer Member*.

This applies no matter what the claims, experience, or any other factor that refers to any other *person*.

4463. Notify ~~IIROC~~the Corporation of underwriter insurance termination

(1) A *Dealer Member's standard form financial institution bond* and mail insurance policies must require the underwriter to notify ~~*IIROC*~~the *Corporation* at least 30 days before the underwriter terminates or cancels insurance coverage.

4464. When insurance ends due to take-over

(1) A *Dealer Member* taken over by another entity must ensure it has *standard form financial institution bond* coverage for 12 months from the date of the take-over to cover discovery of any losses it had before the take-over date.

(2) The *Dealer Member* must ensure that any additional premium is paid.

4465. Notify ~~IIROC~~the Corporation of claims

(1) A *Dealer Member* must give written notice to ~~*IIROC*~~the *Corporation* within two *business days* of reporting a claim to the insurer or its authorized representative.

4466. Board of directors review and designation

(1) A *Dealer Member*'s policies and procedures must require its board of directors or the executive committee of the *Dealer Member's* board of directors to:

(i) review and approve the insurance requirements and level of coverage at least annually, and

(ii) designate an appropriate *Executive* to be responsible for insurance matters.

4467. Executive review

(1) A *Dealer Member*'s policies and procedures must require the *Executive* responsible for insurance matters:

(i) review regularly the terms of the *Dealer Member's* insurance policies and design of the *Dealer Member's* operating procedures so that the *Dealer Member* is in compliance with those terms,

(ii) monitor business changes and evaluate the need for changes in coverage or operating procedures, and

(iii) monitor business operations so that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.

4468. Executive prompt action

(1) A *Dealer Member*'s policies and procedures must require the appropriate *Executive* to:

(i) take prompt action to avert or remedy any projected or actual insurance deficiency, and

(ii) notify ~~*IIROC*~~the *Corporation* immediately of any deficiencies, pursuant to clause 4461(1)(ii).

4469. - 4499. Reserved.

RULE 4500 | FINANCING ARRANGEMENTS - REPURCHASE MARKET TRADING PRACTICES

4501. Introduction

(1) Rule 4500 sets out a standard set of trading practices to increase the transparency of the *repurchase agreement* or *reverse repurchase agreement* markets and to promote liquidity and efficiency in the markets.

4502. Definitions

(1) The following terms have the meaning set out below when used in Rule 4500:

"best efforts"	A *repurchase agreement* or *reverse repurchase agreement* trade where the buyer assumes the risk that the seller cannot deliver the securities within the specified time.
"CDSX"	The *CDS* clearing and settlement system comprising the Depository Service and the Settlement Service.
"forward repo"	A *repurchase agreement* or *reverse repurchase agreement* trade that settles later than next day.
"general collateral"	Government of Canada *debt* that is *CDSX* eligible, including real-return bonds and strips (residuals and coupons). For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date.
"inter-dealer broker"	An organization that provides clients information, electronic trading and communications services for trading in wholesale financial markets.
"odd-lot"	A lot less than $25 million for either: (i) overnight and term *general collateral*, or (ii) specials, both term and overnight.

4503. General

(1) A *Dealer Member* trading in the *repurchase agreement* or *reverse repurchase agreement* market that does not include all necessary terms about sales and set-offs in an agreement with the other party must make a capital adjustment as set out in Form 1.

4504. Marking to market

(1) Unless otherwise agreed by the parties, a *Dealer Member* must periodically review its margins to ensure that they are still appropriate for the maturity dates.

(2) Unless otherwise agreed by the parties, a *Dealer Member* that wants to mark-to-market its counterparties must do so by 11:30 a.m.. The mark-to-market must be done on a net basis and not done by issue.

(3) If the parties cannot agree on a price, the current mid-market prices must be used to determine the mark-to-market price. A *Dealer Member* must use the composite prices on an *inter-dealer broker's* screen to determine mid-market price.

(4) A *Dealer Member* must maintain margin through margin calls and not through substitutions.

(5) Cash and collateral considerations:

(i) unless the parties agree otherwise, all dealer-to-dealer margin calls must be met with the transfer of cash or collateral,

(ii) if a *Dealer Member* chooses to meet the margin call with cash, the cash must not be used to change the economic nature of the trade. The cash will bear interest at the rate agreed between the parties,

(iii) if a *Dealer Member* chooses to meet a margin call using collateral, the collateral must have characteristics similar to or better than the security being repurchased or resold, be reasonably acceptable to the other party and be applied on a reasonable basis, and

(iv) a *Dealer Member* may deliver a maximum of one piece of collateral per million dollars.

(6) A *Dealer Member* that wishes to substitute previously margined collateral must do so by 11:30 a.m.

4505. Forward repo trade confirmations

(1) A *Dealer Member* must send the client a confirmation of all *forward repo* trades on the trade date of the trade agreement.

(2) In addition to the disclosures set out in section 3816, the written confirmation must contain, at a minimum, the:

(i) money or par amount, as applicable,

(ii) start date,

(iii) end date,

(iv) interest rate,

(v) collateral type, and

(vi) any substitution rights.

(3) All *forward repo* trades must be confirmed on the *CDSX* system.

4506. Obligation to make coupon payments

(1) A *repurchase agreement* or *reverse repurchase agreement* seller must receive payment from the *repurchase agreement* or *reverse repurchase agreement* buyer of any income on the securities that the seller would have been entitled to if it had not entered the *repurchase agreement* or *reverse repurchase agreement* transaction.

(2) A *repurchase agreement* or *reverse repurchase agreement* buyer does not need to transfer an amount equal to the income payment to the *repurchase agreement* or *reverse repurchase agreement* seller, but can apply it to reduce the amount transferred to the *repurchase agreement* or *reverse repurchase agreement* buyer at the end of the transaction. All *repurchase agreements* or *reverse repurchase agreements* are priced this way, unless otherwise agreed.

4507. Substitutions

(1) A *repurchase agreement* or *reverse repurchase agreement* purchaser does not need to accept collateral substitutions unless it agreed to do so before the transaction.

(2) Collateral passed for an overnight or term trade may be substituted on a *best efforts* basis only.

4508. General collateral repurchase agreement or reverse repurchase agreement allocations

(1) *General collateral* transactions in the *repurchase agreement* or *reverse repurchase agreement* market are allocated based on the type of transaction. The general allocation methods for cash

settlements, forward settlements and replacement transactions when substitutions occur are set out in section 4508.

(2) Money-fill basis:

(i) *general collateral* transactions are completed on a money-fill basis as explained in clause 4508(2)(ii), unless otherwise agreed,

(ii) a transaction executed on a money-fill basis means that the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocations will be no more than two issues to make $50 million, and

(iii) clause 4508(2)(ii) applies to cash trades, forward settlements and substitutions.

(3) If a transaction is executed on a par basis:

(i) the allocated amount must equal the par amount for cash and forward settlements, and

(ii) for substitutions, the replacement transaction must be done on the basis of the par amount originally transacted.

(4) Special *repurchase agreement* or *reverse repurchase agreement* trades must be done on a par basis.

4509. Confidentiality

(1) Subject to subsection 4509(3), all *Dealer Members* and *inter-dealer brokers* must maintain the confidentiality of the names of the parties to a trade.

(2) *Dealer Members* and *inter-dealer brokers* must not ask questions to try to discover the identity of a party.

(3) Certain information may be disclosed as follows:

(i) for a trade that is done through an *inter-dealer broker*, a *Dealer Member* may disclose the identity of a party to only counterparties to the trade after the trade is completed,

(ii) an *inter-dealer broker* may inform a *Dealer Member* that it does not have a line of credit with the other party to the trade before a market is made, as long as it does not give any other information about that party,

(iii) for a name “give up” trade, the full names of parties must be disclosed to counterparties to the trade at the time of the trade to ensure that *Dealer Members* follow proper credit procedures, and

(iv) subsections 4509(1) and 4509(2) do not prevent *Dealer Members* or *inter-dealer brokers* from asking or answering questions to determine the size of the bid or offer.

4510. - 4599. Reserved.

RULE 4600 | FINANCING ARRANGEMENTS - CASH AND SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for cash and securities loan, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions and includes:

(i) definitions,

(ii) general requirements,

(iii) written agreement requirement,

(iv) cash and securities loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty,*

(v) cash and securities loans between *regulated entities*, and

(vi) cash and securities loans with other counterparties.

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"overnight cash loan agreement"	An oral or written agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
"Schedule I chartered bank"	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the securities loan transaction.

4603. General requirements

(1) **Marking to market**

(i) Borrowed securities and collateral must be marked to market daily on a loan by loan basis.

(2) **Record transactions**

(i) A *Dealer Member* must record all financing transactions in its *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep financing accounts separate from the *Dealer Member's* securities trading accounts.

(ii) A *Dealer Member* must keep financing accounts separate from the client's securities trading accounts.

(4) **Confirmations and month-end statements**

(i) A *Dealer Member* must issue confirmations and month-end statements, except when the transaction with other *regulated entities* is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

(i) A *Dealer Member* must begin a buy-in (liquidating transaction) within two *business days* of the date on which the buy-in notice is given.

4604. Written agreement requirement

(1) If a *Dealer Member* has a cash and securities loan agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in section 5840.

(2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(3) If a *Dealer Member* does not have a written agreement for a securities loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.

4605. Cash and securities loans between a Dealer Member and an acceptable institution or acceptable counterparty

(1) When a cash or securities loan is between a *Dealer Member* and an *acceptable institution* or an *acceptable counterparty*, they may use as collateral letters of credit that a *Schedule I chartered bank* issues.

4606. Cash and securities loans between regulated entities

(1) If a cash or securities loan is between *regulated entities*:

(i) the *written cash and securities loan agreement* must state that either party has the right, at any time by giving notice to the other party, to call for any shortfall in the difference between the collateral and the borrowed cash or securities, and

(ii) they may use as collateral, a *Schedule I chartered bank* letter of credit.

4607. Cash and securities loans with other counterparties

(1) When a cash or securities loan is between a *Dealer Member* and a party to which neither section 4605 nor 4606 applies, a *Dealer Member* must comply with subsections 4607(2) and 4607(3).

(2) Securities pledged as collateral must:

(i) be held by:

(a) the *Dealer Member* in *segregation*,

(b) an *acceptable clearing corporation*, or

(c) a bank or trust company that is either an *acceptable institution* or an *acceptable counterparty* under an escrow agreement. The escrow agreement must be between the *Dealer Member* and the depository, institution, or counterparty and must be in a form acceptable to ~~*IIROC*~~the *Corporation*,

(ii) either:

(a) be securities with a margin rate of 5% or less, or

(b) be preferred shares or *debt securities*, convertible into common shares of the class borrowed.

(3) If a *Dealer Member* does not comply with subsection 4607(2) or clause 4603(3)(i), its *net allowable assets* are subject to a charge calculated in the same manner as for client account short securities balances.

4608. - 4699. Reserved.

RULE 4700 | OPERATIONS – BUSINESS CONTINUITY AND GENERAL TRADING AND DELIVERY STANDARDS

4701. Introduction

(1) Rule 4700 sets out the following requirements relating to *Dealer Member* operations:

Part A - Business continuity plan

[sections 4710 through 4714]

Part B - General trading and delivery standards applicable to all transactions

[sections 4750 through4761]

4702. - 4709. Reserved.

PART A - BUSINESS CONTINUITY PLAN

4710. Introduction

(1) To manage risk prudently and maintain investor confidence, *Dealer Members* must ensure they can continue to carry on business after a significant disruption and provide clients with prompt access to their assets.

4711. Creating a business continuity plan

(1) A *Dealer Member* must establish and maintain a business continuity plan.

4712. Business continuity plan procedures

(1) A *Dealer Member's* business continuity plan must identify the procedures it will take to deal with a significant business disruption.

(2) The procedures in subsection 4712(1) must be based on the *Dealer Member's* assessment of its key business functions and required levels of operation during and following a disruption.

(3) The procedures in subsection 4712(1) must provide reasonable assurance the *Dealer Member* stays in business long enough to meet its obligations to its clients and capital markets counterparties after a significant business disruption.

4713. Update business continuity plan

(1) A *Dealer Member* must update its business continuity plan to reflect any significant change in any of its operations, structure, business, or locations.

4714. Annual review and test

(1) Every year:

(i) a *Dealer Member* must review and test, and

(ii) an appropriate *Executive* must approve,

its business continuity plan.

(2) During its annual review, a *Dealer Member* must make any modifications to its business continuity plan that are necessary due to changes in its operations, structure, business, or locations.

(3) ~~IIROC~~The *Corporation* may require a qualified third party to carry out the annual review and test.

4715. – 4749. Reserved.

PART B - GENERAL TRADING AND DELIVERY STANDARDS APPLICABLE TO ALL TRANSACTIONS

4750. Introduction

(1) Part B of Rule 4700 sets out general trading and delivery requirements applicable to all transactions. Additional requirements applicable to transactions that are not cleared and settled through a clearing corporation can be found in Part A of Rule 4800.

4751. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4700:

"acceptable trade matching utility"	The broker-to-broker trade matching utility in *CDS's CDSX* (defined in section 4502), or a similar system approved by ~~IIROC~~the *Corporation*. A list of approved acceptable trade matching utilities is updated and published as a notice by ~~IIROC~~the *Corporation*.
"depository eligible transactions"	Transactions in securities where the affirmation and settlement can be performed through the facilities or services of *CDS*.
"eligible securities"	Securities that are eligible to be deposited in the clearing corporation.
"good delivery securities"	Securities that can be transferred without restrictions and delivered to the buyer of the securities.
"non-exchange trade"	Any trade in a *CDS eligible security* (excluding new issue trades and *repurchase agreement* transactions and *reverse repurchase agreement* transactions) between two *Dealer Members*, which has not been submitted to the *CDS* continuous net settlement service by a *Marketplace* or an *acceptable foreign marketplace*. A non-exchange trade includes the dealer to dealer portion of a jitney trade that is executed between two *Dealer Members* that is not reported by a *Marketplace* or an *acceptable foreign marketplace.*
"participant"	A participant in a clearing corporation's *settlement service.*
"qualified Canadian trust company"	A trust company licensed to do business in Canada or a Canadian province with a minimum paid up capital and surplus of $5,000,000
"settlement service"	A securities settlement service made available by *CDS*.

4752. Use of a clearing corporation

(1) *Dealer Members* who are *participants* in the same clearing corporation must use the clearing corporation's *settlement service* to settle all trades between themselves involving *eligible securities*, unless both the delivering *Dealer Member* and the receiving *Dealer Member* agree otherwise.

(2) If a *Dealer Member* is using a clearing corporation to settle a trade, it must report and settle the trade in accordance with the requirements set out in Part B of Rule 4700 and the clearing corporation's rules and procedures.

(3) If a *Dealer Member* is not using a clearing corporation to settle a trade it must report and settle the trade in accordance with the requirements set out in Part B of Rule 4700 and Part A of Rule 4800.

4753. Use of a trade matching utility

(1) For each *non-exchange trade*, involving *CDS eligible securities*, executed by a *Dealer Member* with another *Dealer Member*, the *Dealer Member* must at or before 6 p.m. on the day the trade was executed:

(i) enter the trade into an *acceptable trade matching utility*, or

(ii) accept or reject any trade entered into an *acceptable trade matching utility* by another *Dealer Member*.

4754. Trade classification where a Dealer Member enters a trade into the matching utility

(1) If a *Dealer Member* enters a trade into an *acceptable trade matching utility* under clause 4753(1)(i), the trade is considered for each dealer trade counterparty to be a compliant trade, a "don't know" (DK) trade or a non-compliant trade according to the following table:

		Action of Dealer Member	
		Enter trade at or before 6 p.m.	Enter trade after 6 p.m.
Action of other Dealer Member	Enter trade at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* compliant trade
	Accept trade at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	
	Enter or accept trade after 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade
	Reject trade at or before 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* don't know or DK trade	
	Reject trade after 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* don't know or DK trade
	No action	*Dealer Member* compliant trade Other *Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade

4755. Trade classification where a Dealer Member does not enter a trade into the matching utility

(1) If a *Dealer Member* accepts or rejects a trade entered into an *acceptable trade matching utility* by another *Dealer Member* under clause 4753(1)(ii) or takes no action on a trade entered into an acceptable trade matching utility by another *Dealer Member*, the trade is considered for each

dealer trade counterparty to be a compliant trade, a "don't know" (DK) trade or a non-compliant trade according to the following table:

		Action of other Dealer Member	
		Enter trade at or before 6 p.m.	Enter trade after 6 p.m.
Action of Dealer Member	Accept at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	
	Accept after 6 p.m.	*Dealer Member* non-compliant trade Other *Dealer Member* compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade
	Reject at or before 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* don't know or DK trade	
	Reject after 6 p.m.	*Dealer Member* non-compliant trade Other *Dealer Member* don't know or DK trade	*Dealer Member* don't know or DK trade Other *Dealer Member* non-compliant trade
	No action	*Dealer Member* non-compliant trade Other *Dealer Member* compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade

4756. Trade matching quarterly compliant trade percentage

(1) A *Dealer Member* must:

(i) promptly report to ~~*IIROC*~~the *Corporation* when its quarterly compliant trade percentage is less than 90% in any quarter, and

(ii) include in this report its action plan to improve its percentage.

(2) The quarterly compliant trade percentage for a *Dealer Member* is determined by dividing the sum of the quarter's compliant trades (which does not include "don't know" trades) by the total number of *non-exchange trades* that are executed during the quarter by the *Dealer Member* with other *Dealer Members*.

(3) Failure to increase the compliant trade percentage to 90% or more within the next quarter after the first sub-standard report will be grounds for ~~*IIROC*~~the *Corporation* to pursue disciplinary action.

4757. Payment or delivery through client settlement agent

(1) For any arrangement where the payment of securities purchased or delivery of securities sold is to be made to or through a client's settlement agent, all of the following procedures must be followed:

(i) the *Dealer Member* receives from the client prior to or at the time of accepting the order the name and address of the settlement agent and account number of the client on file with the settlement agent. Where settlement is made through a depository offering an identification number system for the clients of settlement agents of the depository, the *Dealer Member* must have the client identification number prior to or at the time of accepting the order and use the number in the settlement of the trade,

(ii) each order accepted from the client is identified as either a delivery or receipt against payment trade,

(iii) the *Dealer Member* provides to the client a confirmation according to Rule 3800,

(iv) the *Dealer Member* has obtained an agreement from the client stating that the client will:

(a) promptly provide its settlement agent with instructions regarding the transaction following its receipt of the transaction confirmation from the *Dealer Member*, or the relevant date and information as to each execution from the *Dealer Member*, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and

(b) ensure that its settlement agent affirms the transaction no later than the next *business day* after the date of execution of the trade to which the confirmation relates,

and

(v) the client and its settlement agent must use the facilities or services of *CDS* for the affirmation and settlement of all *depository eligible transactions* through such facilities or services including book based or certificated settlement. This clause 4757(1)(v) applies only to transactions:

(a) to be settled in Canada, and

(b) where both the *Dealer Member* and the settlement agent are *participants* of *CDS* or the same facilities or services of *CDS* required in respect of the trade.

4758. Early registration of securities

(1) Prior to the receipt of payment, a *Dealer Member* must not register any security, with the exception of a new issue on a date before the close date, in the name of the client or his or her nominee. A *Dealer Member's* absorption of bank or other charges incurred by a client or his or her nominee for the registration of a security will be considered an infraction of this requirement.

(2) After the receipt of payment, a *Dealer Member* may absorb transfer fees incurred in the transfer of a security according to a client's instructions.

(3) Despite subsection 4758(1), a *Dealer Member* may register an eligible security in the name of, or in the name of a nominee of, a self-administered registered retirement savings plan registered under the Income Tax Act (Canada) before payment is received if, before the securities are registered, a *Dealer Member* obtains an unconditional *guarantee* from the trust company administering the plan.

4759. Repurchase agreement or reverse repurchase agreement transactions and option granting transactions with clients

(1) Before entering into the following transactions a *Dealer Member* must have in writing all terms relevant to the transaction on the face of the contract or if necessary, on an additional page attached to the contract provided those terms are referred to on the face of the contract, with a client:

(i) an agreement to purchase or repurchase a security,

(ii) an agreement to sell or resell a security, or

(iii) the granting of a put, call or similar *option* involving a security.

4760. When issued trading

(1) Unless otherwise provided by ~~*IIROC*~~the *Corporation* or the parties to the trade agree otherwise:

(i) all when issued trades made before the trading day before the anticipated date of issue of the security must be settled on the anticipated date of issue of such security,

(ii) all when issued trades made on or after the trading day before the anticipated date of issue of the security must be settled on the second settlement day after the trade date, and

(iii) if the security has not been issued on the settlement date in clause 4760(1)(i) or 4760(1)(ii), such trades must be settled on the date that the security is actually issued.

4761. Tax payments

(1) A selling *Dealer Member* must pay, or certify payment of, taxes required for a buying *Dealer Member* to transfer the securities purchased to nominee name, except in the situation where there is a register in the buying *Dealer Member's* province, and the buying *Dealer Member* chooses to transfer the securities to a register outside that province.

4762. – 4799. Reserved.

RULE 4800 | OPERATIONS – TRADING AND DELIVERY STANDARDS FOR NON-CENTRALLY CLEARED TRANSACTIONS, ACCOUNT TRANSFERS AND BULK ACCOUNT MOVEMENTS

4801. Introduction

(1) Rule 4800 sets out the following requirements relating to *Dealer Member* operations:

Part A - Trading and delivery standards applicable to transactions that are not cleared and settled through a clearing corporation:

Part A.1 - Fixed income transactions

[sections 4803 through 4806]

Part A.2 - Stock transactions

[sections 4807 through 4809]

Part A.3 - Buy-in transactions

[section 4810]

Part B - Account transfers and bulk account movements

Part B.1 - Account Transfers

[sections 4852 through 4865]

Part B.2 - Bulk Account Movements

[section 4866].

PART A - TRADING AND DELIVERY STANDARDS APPLICABLE TO TRANSACTIONS THAT ARE NOT CLEARED AND SETTLED THROUGH A CLEARING CORPORATION.

4802. Introduction

(1) Part A of Rule 4800 sets out additional requirements applicable to transactions that are not cleared and settled through a clearing corporation.

PART A.1 – FIXED INCOME TRANSACTIONS

4803. Fixed income accrued interest

(1) All securities having interest payable as a fixed obligation, except securities in sale and *repurchase agreement* transactions, must be conducted on an accrued interest basis until maturity or a default in such payment either occurs or is announced by the debtor, whichever is the earlier event. ~~*IIROC*~~The *Corporation* may set aside this requirement in specific cases where common practice and expediency prompt such action and will give due notice to all *Dealer Members* in such cases.

(2) Prior to actual default or announcement by the debtor as specified in subsection 4803(1), sales made of securities but undelivered at the time of default or such announcement, must be conducted on an accrued interest basis under the terms of the original transaction.

(3) Subsequent to default or announcement by the debtor as specified in subsection 4803(1), the securities must be handled on a flat basis with all matured and unpaid coupons attached, until such time as all arrears of interest have been paid and one current coupon has been paid when due.

(4) Transactions in bonds having coupons payable out of income, if and when earned, must take place on a flat basis. Any matured and unpaid income coupons must be attached. Income bonds that have been called for redemption must continue to be traded on a flat basis even after the call date has been published.

(5) Transactions in bonds where an issuer has been subject to reorganization or capital adjustment that results in the bondholders receiving as a bonus or otherwise, certain stock or scrip, such transactions must be ex stock or scrip, unless otherwise stated at the time the trade is made. Such bonds must be traded on a flat basis until such time as all arrears have been paid and one current coupon has been paid when due, except where ~~*IIROC*~~the *Corporation* has determined otherwise.

(6) Accrued interest on trades in interest paying instruments that pay interest monthly and compound interest monthly must be zero, if the value date of the trade is an interest payment date. Otherwise, the accrued interest on such trades must be calculated by multiplying the face amount of the instrument by the interest rate of the instrument and the number of days between the value date of the trade and the last interest payment date prior to the value date of the trade and dividing the result by twelve multiplied by the number of days between the next interest payment date after the value date of the trade and the last interest payment date prior to the value date of the trade.

(7) For bonds or debentures that are only available in registered form, transactions made one *business day* before a regular interest payment and up to two *business days* before the closing of the transfer agent's books for the next interest payment, both days inclusive, will be on an "and interest" basis. The full amount of such interest payment must be deducted by the seller after the calculation of interest on the regular delivery basis, unless delivery is completed to the buyer by 12 p.m. at a transfer point on the date of the closing of the transfer agent's books for a regular interest payment.

(8) For bonds or debentures that are only available in registered form, transactions from one *business day* before the closing of the transfer agent's books up to and including two *business days* before a regular interest payment must be "less interest" from settlement date to the regular interest payment date.

(9) Where interest on a transaction involves an amount greater than that represented by the half-yearly coupon, interest is to be calculated on the basis of the full amount of the coupon less one or two days, as the case may be.

4804. Fixed income trading units

(1) Section 4804 applies to all transactions between *Dealer Members* regardless of the *Districts* the *Dealer Members* are in.

(2) In section 4804 "trading units" is defined as follows:

(i) Government of Canada

(a) $250,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of less than one year to maturity (or to the earliest call date, where the transaction is completed at a premium),

(b) $100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of one year or longer but three years or less to maturity (or to the earliest call date, where the transaction is completed at a premium),

(c) $100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term to maturity of longer than three years (where the bond is traded at a premium, the earliest call date shall be treated as the maturity date).

(ii) Province of Canada

(a) $25,000 par value for bonds, debentures and other obligations of or guaranteed by a province in Canada.

(iii) Other Bonds and Debentures

(a) $25,000 par value for bonds and non-convertible debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were not issued with attached stock warrants, rights or other attachments,

(b) $5,000 par value for bonds, convertible debentures or debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were issued with attached stock warrants, rights or other attachments.

(3) A *Dealer Member* calling a market must trade *trading units* if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one *trading unit* will be considered as an "odd lot".

(4) Any *Dealer Member* asking the size of a stated market must be prepared to buy or sell at least a *trading unit* at the price quoted if immediately requested to do so by the *Dealer Member* calling the market.

(5) Any *Dealer Member* who has been requested to call a market has the option to trade an *odd lot* at the called market (if so requested) or to adjust his market to compensate for the smaller amount involved.

4805. Fixed income delivery

(1) In section 4805 "regular delivery" is defined as:

(i) Government of Canada

(a) The same day as the transaction date for Government of Canada Treasury Bills.

(b) The second *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds (except Treasury Bills) having an unexpired term to maturity of three years or less (or to the earliest call date where a transaction is completed at a premium). Any accrued interest must be stopped on the second *business day* after the transaction date.

(c) The second *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds having an unexpired term to maturity

of longer than three years (where such a bond is traded at a premium the earliest call date shall be treated as the maturity date). Any accrued interest must be stopped on the second *business day* after the transaction date.

(ii) Province of Canada

(a) The second *business day* after the transaction date for all provincial bonds or debentures. Any accrued interest must be stopped on the second *business day* after the transaction date.

(iii) Other Bonds and Debentures

(a) The second *business day* after the transaction date for all municipal, corporation and other bonds or debentures (other than Government of Canada and Province of Canada treasury bills, bonds or debentures), and other certificates of indebtedness including mortgage-backed securities. Any accrued interest must be stopped on the second *business day* after the transaction date.

(2) All trades are to be considered for *regular delivery*, unless otherwise agreed to in writing by all of the parties to a transaction at the time of the transaction.

(3) For a deal involving the sale or purchase of more than one maturity, each maturity must be treated as a separate transaction. No contingent (all or none) dealings are permitted.

(4) New issues delivery

(i) The *regular delivery* requirements are not intended to interfere in any way with the common practice of transactions between *Dealer Members* in new issues during the period of primary distribution on an "accrued interest to delivery" basis. However, the *regular delivery* requirements will come into effect on the appropriate number of *business days* prior to the new issue being first available for physical delivery.

(ii) Where a new issue delivery is made against payment outside of the points fixed for the initial syndicate delivery of the issue, additional accrued interest must be charged from the delivery date at the initial syndicate delivery point of the new issue, according to the length of time normally required for delivery to the locality in which the delivery is made.

(iii) For a mortgage-backed security transaction made during the period from the second *business day* before month-end to the first *business day* on or before the twelfth day of the following month, inclusive, delivery must take place on or after the fifteenth day of the month.

(5) Location

(i) For any transaction between *Dealer Members* in the same municipality where physical delivery is to be made, the seller must complete the delivery before 4:30 p.m. on a *business day*.

(ii) For any transaction between *Dealer Members* in different municipalities, the seller must complete the delivery on the buyer's terms, that is the delivery is to be made by the seller free of banking or shipping charges to the buyer. Where bank drafts are drawn to arrive at their destination on a day that is not a *business day*, the seller is entitled to have charges paid up to the next *business day* after the expected arrival of the bank drafts.

(6) Good delivery

(i) Securities traded by *Dealer Members* must be *good delivery securities*. Therefore, they must have the necessary endorsements, *guarantees* or both, and meet all legal and regulatory requirements so that their titles can be transferred by delivery to the buyer on settlement date. The seller must obtain them and include them with the delivery.

(ii) *Good delivery securities* may consist of bearer bonds or debentures or registered bonds or debentures.

(iii) For good delivery, securities that can be traded as actual certificates or as certificates of deposit, delivery must be made in the form of actual certificates, unless stated otherwise at the time of the transaction.

(iv) For good delivery, the bonds or debentures are to be of a maximum denomination of $100,000 par value, unless agreed to otherwise by the buyer.

(v) For good delivery, if a power of attorney is necessary for the certificates, one power of attorney for each certificate is required, unless the buyer has agreed otherwise to accept an amalgamated power of attorney.

(vi) For good delivery, if definitive certificates are not available interim certificates may be used. However, once definitive certificates are available interim certificates may not be used, unless the *Dealer Members* agree otherwise.

(vii) *Good delivery securities* may consist of the following, provided that is it acceptable to the transfer agent:

(a) bonds or debentures registered in the name of an *individual*, properly endorsed and with endorsement guaranteed by a *Dealer Member* in good standing of ~~*IIROC*~~the *Corporation* or an exchange in Canada or the United States, or by a *chartered bank* or *qualified Canadian trust company,*

(b) bonds or debentures registered in the name of a *Dealer Member* or nominee of a *Dealer Member* and properly endorsed,

(c) bonds or debentures registered in the name of a member of an exchange in Canada or the United States and properly endorsed,

(d) bonds or debentures registered in the name of a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or qualified trust company and properly endorsed.

(7) Not good delivery

(i) A mutilated or torn certificate or coupon unless acceptable to the receiving *Dealer Member.*

(ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt.

(iii) A certificate signed by a trustee or administrator unless accompanied by sufficient evidence of authority to sign.

(iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed power of attorney to transfer attached. (One power of attorney for each certificate or an amalgamated power of attorney if acceptable to receiving broker or dealer).

(v) A certificate which has been altered or erased (other than by the transfer agent) whether or not such alteration or erasure has been guaranteed.

(vi) A certificate on which the assignment or substitute attorney has been altered or erased.

(vii) A certificate with the next maturing coupon or subsequent coupons detached unless where so traded or where a certificate cheque (if for $1,000 or more) payable to the receiving *Dealer Member*, dated no later than the date of delivery and for the amount of the coupon missing, is attached to the certificate in question.

(viii) A bond or debenture, registered as to principal only, which after being transferred to bearer, does not bear the stamp and signature of the trustee.

(ix) A registered bond or debenture unless it bears a certificate that provincial tax has been paid where applicable.

(x) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker.

(8) Prior to notice of call

(i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. Date of notice is the date of the notice of call irrespective of the date of publication of such notice. Called securities do not constitute good delivery unless the transaction is so designated at its inception.

(ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice must be completed on the terms of the original transaction.

4806. Fixed income redemption payment

(1) A *Dealer Member* must not pay to a client regarding any maturity the redemption price or other amount due on redemption of such securities where the price or amount exceeds $100,000, unless:

(i) the *Dealer Member* has first received an amount equal to such price or other amount from the issuer or its agent by cheque certified by or accepted without qualification by a *chartered bank,* or

(ii) the *Dealer Member* has first received or is credited an amount equal to such price or other amount through the facilities of *CDS* or Depository Trust Company.

PART A.2 – STOCK TRANSACTIONS

4807. Stock trading units

(1) Section 4807 applies to all transactions between *Dealer Members* regardless of the *Districts* the *Dealer Members* are in.

(2) In section 4807 “trading units” is defined as follows:

(i) Common and preferred shares not listed on an exchange in Canada or the United States:

(a) in lots of 500 shares, if market price per share is below $1,

(b) in lots of 100 shares, if market price per share is at $1 and below $100, or

(c) in lots of 50 shares, if market price per share is at $100 or above.

(3) A *Dealer Member* calling a market shall be obliged to trade *trading units* if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one *trading unit* will be considered as an "odd lot".

(4) Any *Dealer Member* asking the size of a stated market must be prepared to buy or sell at least a *trading unit* at the price quoted if immediately requested to do so by the *Dealer Member* calling the market.

(5) Any *Dealer Member* that has been requested to call a market has the option to trade an *odd lot* at the called market (if so requested) or to adjust its market to compensate for the smaller amount involved.

4808. Stock delivery

(1) All trades are to be considered for *regular delivery* (defined in subsection 4808(2)), unless otherwise agreed to in writing by the parties to a transaction at the time of the transaction.

(2) In section 4808 "regular delivery" is defined as:

(i) Exchange-listed shares

(a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.

(ii) Unlisted registered shares

(a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.

(b) For transactions between *Dealer Members* in shares that occur one *business day* before the record date, the shares must be traded ex dividend, ex rights, or ex payments.

(c) For transactions between *Dealer Members* in shares that are not ex dividend, ex rights, or ex payments at the time the transaction occurs and delivery is not completed before twelve o'clock noon (12 p.m.) at a transfer point on the date of the closing of the transfer agent's books, the seller is responsible to the buyer for the payment of such dividends or payments, and delivery of such rights, as may be involved, on their due dates. For the purposes of this sub-clause 4808(2)(ii)(c), where the record date falls on a Saturday or other non-*business day*, the *business day* prior to the record date is to be treated as the effective record date.

(3) New issues delivery

(i) The *regular delivery* requirements in subsection 4808(2) are not intended to interfere in any way with the common practice of dealing in new issues during the period of primary distribution. However, the *regular delivery* requirements will come into effect on the appropriate number of *business days* prior to the new issue being first available for physical delivery.

(4) Location

(i) For any transaction between *Dealer Members* in the same municipality, delivery should be advised by 11:30 a.m. on the fourth *business day* after a transaction takes place.

(ii) For any transaction between *Dealer Members* located in different municipalities, delivery should be received by the buyer by the expiration of the fourth *business day* after the transaction takes.

(5) Good delivery

(i) Securities traded by *Dealer Members* must be *good delivery securities*. Therefore, they must have the necessary endorsements, *guarantees* or both, and meet all legal and regulatory requirements so that their titles can be transferred by delivery to the buyer on settlement date. The seller must obtain them and include them with the delivery.

(ii) Certificates registered in the name of:

(a) an *individual*, must be endorsed by the registered holder in exactly the same manner as registered and the endorsement guaranteed by a *Dealer Member* or by a member of an exchange in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*. Where the endorsement does not exactly correspond to the registration shown on the face of the certificate, a certification by a *Dealer Member*, a member of an exchange in Canada or the United States, a *chartered bank* or a *qualified Canadian trust company* that the two signatures are the same person's is required,

(b) a *Dealer Member* or a member of an exchange in Canada or the United States or a nominee of either and properly endorsed,

(c) a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or *qualified Canadian trust company* and properly endorsed by a *Dealer Member*, or

(d) any other manner providing it is properly endorsed and the endorsement is guaranteed by a *Dealer Member* or by a member of an exchange in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*.

(iii) Certificates in board lot denominations (or less) as required by the exchange on which the stock is traded. Unlisted stocks should also be in denominations similar to listed stocks in the same category and price range.

(6) Not good delivery

(i) A mutilated or torn certificate or coupon unless acceptable to receiving broker or dealer.

(ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt.

(iii) A certificate signed by a trustee or administrator unless accompanied by sufficient evidence of authority to sign.

(iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed power of attorney to transfer attached. (One power of attorney for each certificate or an amalgamated power of attorney if acceptable to receiving broker or dealer).

(v) A certificate that has been altered or erased (other than by the transfer agent) whether or not such alteration or erasure has been guaranteed.

(vi) A certificate on which the assignment or substitute attorney has been altered or erased.

(vii) A registered stock unless it bears a certificate that provincial tax has been paid where applicable.

(viii) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker.

(7) Prior to notice of call

(i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. Date of notice is the date of the notice of call irrespective of the date of publication of such notice. Called securities do not constitute good delivery unless the transaction is so designated at its inception.

(ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice must be completed on the terms of the original transaction.

4809. Stock dividend claims

(1) No *Dealer Member* shall make a certificate claim for dividends against another *Dealer Member* if the amount of such claim would be $5.00 or less.

PART A.3 - BUY-IN TRANSACTIONS

4810. Buy-ins

(1) Buy-ins must be made within the times, using the notices prescribed, and according to ~~*IIROC*~~*Corporation requirements*. For the purposes of clauses 4810(1)(i) through 4810(1)(v) a "regular delivery transaction" is deemed to have taken place once the *Dealer Members* involved have agreed on a price.

(i) For transactions between *Dealer Members* in the same municipality, where the seller does not advise the buyer about the delivery by 11:30 a.m. on the fourth *business day* after a regular delivery transaction:

(a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to ~~*IIROC*~~the *Corporation* on that day, or any subsequent *business day*, prior to 3:30 p.m., of his or her intention to buy-in for cash on the second *business day* after the original notice.

(b) The notice is deemed to automatically renew itself from *business day* to *business day* from 11:30 a.m. until closing until the transaction is finally completed.

(c) Where the buy-in is not executed on the second *business day* after the original notice, the seller has the privilege of advising the buyer each subsequent day before 11:30 a.m. of his or her ability, and intention, to make either whole or partial delivery on that day.

(ii) For transactions between *Dealer Members* in different municipalities, where delivery has not been received by the buyer at the expiration of four *business days* after the transaction takes place, on or after the fourth *business day*:

(a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to ~~*IIROC*~~the

Corporation on that day by 12 p.m. (the seller's time) his or her intention to buy-in for cash on the third *business day* after the original notice.

(b) Where the seller has not advised the buyer in writing by 5 p.m. (the buyer's time) on the day after the original notice that the securities covered by the buy-in have passed through his or her clearing and are in transit to the buyer, the buyer may proceed to execute the buy-in on the third *business day* after the original notice.

(c) The notice is deemed to automatically renew itself from *business day* to *business day* and the seller forfeits all rights to complete delivery other than the portion of the transaction that is in transit by the day following the receipt of the original notice. The buyer may at his or her option allow the seller to complete delivery of any remaining portion of the transaction.

(iii) Any *Dealer Member* who is bought-in may demand evidence that a bona fide transaction has taken place involving the delivery of the bought-in securities. The *Dealer Member* who is bought-in has the right, to deliver such part of his or her commitment according to clauses 4810(1)(i) and 4810(1)(ii) and must complete any such delivery to the nearest $1,000 par value, or stock *trading unit*.

(iv) ~~*IIROC*~~The *Corporation* has the authority to postpone the execution of a buy-in from day to day, and to combine buy-ins in the same security, and to decide any dispute arising from the execution of the buy-in, and its decision is final and binding.

(v) When a buy-in has been completed the buyer must submit to the seller a statement of account showing:

(a) as credits, the amount originally contracted for as payment for the securities, and

(b) as debits, the amount paid on buy-in, the cost of the buyer's communication charges relative to the buy-in, and any bank or shipping charges incurred.

Where there is a credit balance remaining, the buyer must pay this amount to the seller, and where there is a debit balance remaining, the seller must pay this amount to the buyer.

4811. – 4849. Reserved.

PART B - ACCOUNT TRANSFERS AND BULK ACCOUNT MOVEMENTS

4850. Introduction

(1) Part B.1 of Rule 4800 describes ~~*IIROC*~~the *Corporation's requirements* for transferring accounts between *Dealer Members* to ensure these transfers are completed promptly.

(2) Part B.2 of Rule 4800 describes ~~*IIROC*~~the *Corporation*'s exemption authority with regards to bulk account movements.

4851. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4800:

"account transfer"	A client account transfer, at the request of or with the authority of the client, from one *Dealer Member* to another *Dealer Member*.
"delivering Dealer Member"	The *Dealer Member* from which the client account is being transferred or moved.

"partial account"	Less than the total assets and balances in a client account held by a *delivering Dealer Member.*
"receiving Dealer Member"	The *Dealer Member* to which the client account is being transferred or moved.
"recognized depository"	~~An *IIROC*~~A *Corporation* recognized clearing corporation or depository that is considered an *acceptable securities location*.

PART B.1 - ACCOUNT TRANSFERS

4852. Transferring a full or partial account

(1) A *Dealer Member* transferring a full or *partial account* must comply with Part B.1 of Rule 4800.

4853. Transfer through a recognized depository

(1) Whenever possible, a *Dealer Member* transferring a client account must transfer that account through a *recognized depository*.

4854. Communications between Dealer Members

(1) Communications between *Dealer Members* must take place by electronic delivery through *CDS's* account transfer facility, unless both *Dealer Members* agree otherwise.

(2) A *Dealer Member* must pay its costs for delivering or receiving electronic communications done under Part B.1 of Rule 4800.

(3) A *Dealer Member* must select, implement, and maintain appropriate security measures to protect its electronically delivered communications.

(4) *Dealer Member* acknowledgement and indemnification:

(i) a *Dealer Member* acknowledges that an electronically delivered communication it sends will be relied on by the *Dealer Member* receiving it,

(ii) a *Dealer Member* must indemnify and save harmless other *Dealer Members* from any claims, losses, damages, liabilities or expenses the *other Dealer Members* suffer as a result of relying on its unauthorized, inaccurate, or incomplete electronic communication.

4855. Receiving Dealer Member - responsibilities for documents

(1) If a *receiving Dealer Member* receives a request from a client to accept an account, it must obtain written authorization from the client to transfer the account.

(2) After the client gives written authorization to the *receiving Dealer Member,* the *receiving Dealer Member* must:

(i) promptly send a request for transfer (using an account transfer authorization form approved by ~~*IIROC*~~the *Corporation*) through *CDS* to the *delivering Dealer Member*, and

(ii) keep the original written account transfer authorization form on file.

(3) The *receiving Dealer Member* must ensure that the forms or documents required to transfer accounts are completed and available on the same day as the request for transfer is delivered.

4856. Delivering Dealer Member - response to request for transfer

(1) When it receives the request for transfer, the *delivering Dealer Member* must either:

(i) deliver to the *receiving Dealer Member*, by the specified return date, the asset list for the client account being transferred, or

(ii) reject the request for transfer if the client account information is unknown to the *delivering Dealer Member* or is incomplete or incorrect.

(2) The return date in clause 4856(1)(i) must be no later than two *clearing days* after the date that the *delivering Dealer Member* received the request for transfer.

4857. Asset transfer

(1) Within one *clearing day* after the specified return date the *delivering Dealer Member* must commence, or cause *CDS's* account transfer facility to implement automatically, the transfer of the assets through *CDS*.

(2) Any assets that cannot be transferred through a *recognized depository* must be settled:

(i) over-the-counter,

(ii) by other standard industry practices, or

(iii) by other appropriate means agreed between the *receiving Dealer Member* and the *delivering Dealer Member*.

The time limits in subsection 4857(1) apply.

4858. Transfer impediment

(1) If there is an impediment to the requested transfer of an account asset, the *delivering Dealer Member* must promptly notify the *receiving Dealer Member*, identifying the asset and the reason for the inability to deliver.

(2) The *receiving Dealer Member* must get client instructions or directions concerning the asset, and deliver them to the *delivering Dealer Member.*

(3) The balance of the client's assets must be transferred according to Part B.1 of Rule 4800.

4859. Failure to settle

(1) If the *delivering Dealer Member* fails to settle an asset transfer in a client account within 10 *clearing days* of receipt of the request for transfer, the *receiving Dealer Member* may complete the *account transfer*, at its option, by:

(i) buying-in the unsettled position in accordance with section 4810,

(ii) lending the security to the *delivering Dealer Member* through a *recognized depository* and simultaneously transferring the same security into the client account, or

(iii) making other mutually agreed arrangements with the *delivering Dealer Member* so that the *account transfer* can be considered completed.

(2) Any loan in clause 4859(1)(ii) must be marked to market and the assets will be considered delivered to the *receiving Dealer Member* to settle the *account transfer*.

4860. Non-certificated mutual funds

(1) Non-certificated mutual fund securities are considered transferred when the *delivering Dealer Member* delivers to the *receiving Dealer Member*:

(i) a completed mutual fund transfer form, and

(ii) a completed and signed power of attorney, or

(iii) by entry of transfer instructions in the electronic account transfer facility of FundSERV Inc.

4861. Interest or dividend receipt balances

(1) Interest or dividend receivable balances must be settled promptly between a *delivering Dealer Member* and *receiving Dealer Member*. Despite any failure to settle these balances, a *Dealer Member* must comply with the *account transfer* procedures in Part B.1 of Rule 4800.

4862. Margin

(1) A *Dealer Member* must not accept an *account transfer* from another *Dealer Member* if the account has a margin deficiency.

(2) Subsection 4862(1) does not apply if at the *account transfer* time the *receiving Dealer Member* has sufficient funds or collateral to the client's credit available to cover the account's margin deficiency.

4863. Responsibility for margining account

(1) The *receiving Dealer Member* assumes the responsibility for the margining of transferred account money balances and assets on the date or dates the money balances or assets are received.

4864. Fees and charges

(1) Before or at the time of *account transfer*, a *delivering Dealer Member* may deduct any fee or charge on the account in accordance with the *delivering Dealer Member's* current published fee and charge schedule.

4865. ~~IIROC~~Corporation exemption

(1) ~~*IIROC*~~The *Corporation* may exempt a *Dealer Member* from the requirements of Part B.1 of Rule 4800 if ~~*IIROC*~~the *Corporation* is satisfied that to do so would not prejudice the interests of the *Dealer Member*, its clients, or the public.

(2) In granting an exemption under subsection 4865(1), ~~*IIROC*~~the *Corporation* may impose any terms and conditions it considers necessary.

PART B.2 - BULK ACCOUNT MOVEMENTS

4866. Bulk account movements exemption

(1) In the event of a bulk account movement situation, where a *Dealer Member* is receiving in a significant number of client accounts, ~~*IIROC*~~the *Corporation* may grant the *Dealer Member* an exemption from the applicable account opening requirement completion timelines.

(2) ~~*IIROC*~~The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member*'s clients, the public or the *Dealer Member*.

(3) In granting such an exemption under subsection 4866(1), ~~*IIROC*~~the *Corporation* may impose any terms and conditions it considers necessary.

4867. – 4899. Reserved.

RULE 4900 | OTHER INTERNAL CONTROL REQUIREMENTS – DERIVATIVES RISK MANAGEMENT

4901. Introduction

(1) Rule 4900 sets out the *internal control* requirements for *Derivative* risk management.

4902. - 4909. Reserved.

DERIVATIVES RISK MANAGEMENT

4910. Introduction

(1) A *Dealer Member* must have an independent risk management function to:

(i) manage the risks resulting from its use of *derivatives*, which include exchange and over-the-counter traded *derivatives*,

(ii) ensure that an appropriate *Executive* that reports to the board of directors understands all risks, and

(iii) ensure that its *risk adjusted capital* is calculated properly.

4911. Reserved.

4912. Risk management process

(1) A *Dealer Member* must have a risk management function with clear independence and authority to ensure risk limit policies are developed and transactions and positions are monitored for adherence to these policies.

(2) A *Dealer Member* must have a risk management process to identify, measure, manage, and monitor risks associated with the use of *derivatives*.

(3) The risk management process has two parts:

(i) An appropriate *Executive* must be knowledgeable of the nature and risks of all *derivative* products used in treasury, proprietary, institutional and retail activities, and

(ii) The *Dealer Member*'s policies and procedures must clearly outline risk management guidance for *derivatives* activities.

(4) ~~A~~An *Dealer Member's* financial accounting department must measure the *Dealer Member's* revenue components regularly and in sufficient detail to understand risk sources.

4913. Role of board of directors

(1) A *Dealer Member's* board of directors or equivalent must approve policies and procedures relating to significant risk management to provide reasonable assurance they are consistent with the *Dealer Member's* overall broader business strategies and appropriate for market conditions.

(2) An appropriate *Executive* must report at least annually to the *Dealer Member's* board of directors on a *Dealer Member's* risk exposure.

4914. Role of an appropriate Executive

(1) An appropriate *Executive* must ensure that for *derivative* products:

(i) The *Dealer Member*'s policies and procedures specifically address processing, trading, monitoring and reporting cycles including:

(a) clear responsibility lines for risk management,

(b) an adequate system for measuring risk,

(c) appropriate risk position limits,

(d) effective *internal controls*, and

(e) a comprehensive reporting process,

(ii) if risk position limits are exceeded, there is a system to ensure that these excesses are approved only by authorized *employees* and communicated to an appropriate *Executive*,

(iii) all appropriate approvals are obtained and adequate operational procedures and risk control systems are in place,

(iv) appropriate risk control systems address market, credit, legal, operational, and liquidity risks,

(v) *derivatives* activities are undertaken by a sufficient number of professionals with appropriate experience, skill levels, and certification,

(vi) risk management procedures are regularly evaluated for appropriateness and soundness,

(vii) it approves all standard and non-standard *derivative* product programs,

(viii) there is an accurate, complete, informative, and timely management information system, and

(ix) the risk management function monitors and reports risk metrics to the *Dealer Member's* appropriate *Executives* and to the *Dealer Member's* board of directors or equivalent.

4915. Pricing

(1) In addition to the requirements in Part C of Rule 4200, a *Dealer Member* must comply with the requirements in subsections 4915(2) through 4915(4) in pricing *derivatives*.

(2) *Derivatives* positions must be marked to market at least daily.

(3) A *Dealer Member's* independent risk management function must:

(i) validate all pricing models, including computing market data or model inputs,

(ii) review and approve pricing models and valuation systems used by front and back-office *employee*s, and

(iii) review and approve reconciliation procedures if different systems are used.

(4) Valuations derived from models must be independently reviewed at least monthly.

4916. – 4999. Reserved.

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

5101. Introduction

(1) Rule 5100:

(i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],

(ii) sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and

(iii) sets out the definitions used within Rules 5200 through 5900 [section 5130].

5102. - 5109. Reserved.

5110. Margin requirements - purposes

(1) The purposes of margin requirements are to:

(i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,

and

(ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading or client account margin lending.

(2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

5111. Margin requirements - general application

(1) A *Dealer Member* must:

(i) obtain from and maintain for each of its clients, and

(ii) maintain for its own inventory accounts,

minimum margin in the amount and manner prescribed by ~~*IIROC*~~the *Corporation*.

(2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.

(3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on securities owned and sold short when calculating its *risk adjusted capital*.

(4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the security or *derivative* position for which margin is being calculated.

5112. Application of margin requirements - Dealer Member inventory positions

(1) Section 5112 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.

(2) **Dealer Member long inventory margin**

A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of security, or

(ii) by any alternative method specified in the ~~*IIROC*~~*Corporation requirements*.

(3) **Dealer Member short inventory margin**

A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of security (expressed as absolute value), or

(ii) by any alternative method specified in the ~~*IIROC*~~*Corporation requirements*.

5113. Application of margin requirements - client account positions

(1) Section 5113 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.

(2) **Client accounts - loan value of long positions**

The *loan value* of a long position is generally calculated according to the formula:

(i) [100% - applicable margin rate %] x positive *market value* of the security, or

(ii) by any alternative method specified in the ~~*IIROC*~~*Corporation requirements*.

(3) **Client accounts - loan value of short positions**

The *loan value* of a short client position is generally calculated according to the formula:

(i) [100% + applicable margin rate %] x negative *market value* of security, or

(ii) by any alternative method specified in the ~~*IIROC*~~*Corporation requirements*.

(4) **Net loan value and status of a client account**

(i) The positive and negative *loan values* in a client margin account must be totalled.

(ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.

(iii) If the total *loan value* in a client account results in a net negative *loan value,* the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.

(iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

5114. Client securities that are collateral for a margin debt

(1) If a client is in debt to a *Dealer Member*, all securities the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.

(2) The securities a *Dealer Member* holds under subsection 5114(1) are collateral security subject to Form 1, Schedule 4 and to any agreement between the *Dealer Member* and the client.

5115. Dealer Member's rights in securities of indebted clients

(1) A *Dealer Member* has the right to:

(i) raise money on,

(ii) carry in its general loans, and

(iii) pledge and repledge,

the client securities it holds as collateral under section 5114.

5116. Dealer Member may buy or sell client securities

(1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:

(i) buy securities held short for an indebted client, or

(ii) sell securities it holds for an indebted client.

5117. Dealer Member's right to recover from indebted client

(1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's securities.

5118. - 5119. Reserved.

5120. Margin requirements - when a rate is not specified

(1) Where a security position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the ~~*IIROC*~~*Corporation requirements*, the *Dealer Member* must obtain a margin rule interpretation from ~~*IIROC*~~*Corporation* staff specifying the margin rate or requirement to be used.

5121. - 5229. Reserved.

5130. Definitions

(1) In Rules 5100 through 5900, unless stated otherwise, any term used that is not defined here or in the Rule where it is used, but is defined or used in Form 1, has the meaning defined or used in Form 1.

(2) For all positions subject to margin, the term:

"client account margin"	(i) A minimum percentage of a security's or *derivative* contract's *market value*, or (ii) a calculated dollar amount that a client must deposit with a *Dealer Member* when borrowing from the *Dealer Member* to buy securities or to sell securities short or to enter into the *derivative* contract.
"Dealer Member inventory margin"	(i) A minimum percentage of a security's or *derivative* instrument's *market value*, or (ii) a calculated dollar amount that a *Dealer Member* must provide when calculating its *risk adjusted capital*.
"equivalent number" or "equivalent quantity" or "equivalent quantities"	(i) A position with the same underlying number of shares, units of the same issuer, (ii) *futures contracts* based on the same underlying number of shares, units of the same issuer, or (iii) a position with the same currency denomination and *market value*, as the offset or combination position with which it is paired.

"loan value"	The complement of the *client account margin* and is the maximum a *Dealer Member* may loan to a client for a particular security or *derivative* position.
"normal margin" or "normal margin required"	Margin otherwise required in Rules 5200 through 5900.
"underlying interest" or "underlying security" or "underlying basket of securities"	In the case of: (i) a *convertible security,* the security to be received upon invoking the conversion or exchange feature, (ii) an *exercisable security,* the security to be received upon invoking the exercise feature, (iii) an *index participation unit,* the basket of securities to be received upon invoking the conversion or exchange feature, (iv) an *installment receipt*, the security that has been purchased on an installment basis by the holder of the *installment receipt*, (v) residual debt securities and strip debt securities, the *debt security* used to create the residual debt securities and strip debt securities, (vi) currency *options*, the currency referenced by the *option*, (vii) equity, *index participation unit* and debt *options*, the security referenced by the *option*, (viii) *index options*, the *index* referenced by the *option*, and (ix) a *total performance swap*, the security or basket of securities on which the swap is based.

(3) For positions in and offsets involving *debt securities* and related instruments, the term:

"acceptable commercial, corporate and finance company notes"	Notes issued by a company that meet the requirements in subsection 5220(2).
"call protection period"	The period of time during which the issuer cannot redeem a *callable debt security*.
"callable debt security"	A *debt security* which can be redeemed by the issuer at a fixed price at any time other than during the *call protection period*.
"Canada debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by the government of Canada.
"Canada Municipal debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by a Canadian municipal government.
"Canada Provincial debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by a Canadian provincial government.
"Canada Provincial residuals"	A residual portion from a *debt security* issued or guaranteed by a Canadian province.
"Canada Provincial strips"	A strip coupon from a *debt security* issued or guaranteed by a Canadian province.
"Canada residuals"	A residual portion from a *debt security* issued or guaranteed by the Government of Canada.

"Canada strips"	A strip coupon from a *debt security* issued or guaranteed by the Government of Canada.
"Canadian banker acceptance futures contract"	A three month Canadian bankers acceptance *futures contract* that trades on the Bourse de Montreal under the "BAX" trading symbol.
"extendible debt security"	A *debt security* which allows a *Dealer Member* holder, during a fixed time period, to: (i) extend the security's maturity date to the extension maturity date, and (ii) in change the principal amount of the security by a fixed percentage (the *extension factor*) of the original principal amount.
"extension election period"	The period of time during which a *Dealer Member* holder may elect to: (i) extend the maturity date, and (ii) in change the principal amount, of an *extendible debt security.*
"extension factor"	The fixed percentage used to change the original principal amount of an *extendible debt security*, if any.
"floating rate debt obligation"	A *debt security* of either a government issuer that otherwise meets the requirements under subsection 5210(1) or a corporate issuer that otherwise meets the requirements under subsection 5220(1), with terms that provide for interest rate adjustments at least quarterly with reference to an interest rate set for a term of 90 days or less.
~~"low current credit rating"~~	~~For a Canadian issuer, a current credit rating of "B" or lower by DBRS; and for U.S. pay securities, a current credit rating of "B" or lower by Moody's or S&P Corporation.~~
~~**As described in IIROC Notice 21-0028, effective September 1, 2022, the definition of "low current credit rating" in subsection 5130(3) will be repealed and replaced with the following:**~~	
"low current credit rating"	A current credit rating of "B" or lower by a *designated rating organization*.
"maturity band"	The range of years within which the *debt security* subject to margin matures.
"retractable debt security"	A *debt security* which allows the *Dealer Member* holder, during a fixed time period, to: (i) retract the security's maturity date to the retraction maturity date, and (ii) change the principal amount of the security by a fixed percentage (the *retraction factor*) of the original principal amount.
"retraction election period"	The period of time during which a holder may elect to: (i) retract the maturity date, and (ii) change the principal amount of a *retractable debt security*.
"retraction factor"	The fixed percentage used to change the original principal amount of a *retractable debt security*, if any.
"United States debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by the government of the United States.

(4) For positions in and offsets involving equity and equity index securities and rights and warrants, the term:

"basic margin requirement"	A customized security specific margin rate for a security that is based on the security's traded price per share.
"Canada and United States listed equity securities eligible for margin"	Securities (other than bonds, debentures, rights and warrants) listed on any *acceptable exchange* or market tier in Canada or the United States with adequate minimum pre-tax profit, net tangible asset and working capital requirements, as determined by ~~*IIROC*~~the *Corporation*.
"Canada and United States unlisted equity securities eligible for margin"	Unlisted: (i) *equity securities* of insurance companies licensed to do business in Canada, (ii) *equity securities* of Canadian banks, (iii) *equity securities* of Canadian trust companies, (iv) senior *equity securities* of other Canadian and United States listed companies, (v) *equity securities* which qualify as legal for investment by Canadian life insurance companies, without recourse to the basket clause, and (vi) *equity securities* which have received conditional approval to list on an *acceptable exchange* in Canada within the last 90 days.
"control block"	A *person's* or combination of *persons'* holdings of an issuer's securities in sufficient number to materially affect control of that issuer. If a *person* or combination of *persons* holds over 20% of the outstanding voting securities of an issuer that *person* or combination of *persons* must, absent evidence to the contrary, be considered to materially affect control of that issuer.
"floating rate preferred share"	A special or preferred share with terms that provide for dividend rates that fluctuate at least quarterly in tandem with a prescribed short term interest rate.
"foreign listed equity securities eligible for margin"	Securities (other than bonds, debentures, rights and warrants) listed on an *acceptable exchange* outside of Canada and the United States that are constituent securities for the exchange's major broadly based *index*, and the *index* is on ~~*IIROC*~~the *Corporation's* list of foreign market indices whose constituent securities are eligible for margin.
"future payments"	The unpaid payments of the purchase price for an *underlying security* of an *installment receipt*.
"government guaranteed equity securities"	*Equity securities* where the payment of all dividends, redemption amounts, or other return of capital to holder is unconditionally guaranteed by Government of Canada or by a provincial government.
"installment receipt"	A security issued by or for an issuer or selling security holder that: (i) evidences partial payment for an *underlying security* of an installment receipt, and (ii) requires one or more subsequent payments by installment, to entitle the holder of the installment receipt to delivery of the *underlying security* of an installment receipt.

(5) For positions in underwriting *commitments* and positions traded on a when issued basis, the term:

"appropriate documentation"	With respect to the portion of the *commitment* where expressions of interest have been received from *exempt purchasers* means, at a minimum: (i) that the lead underwriter has a record of the final affirmed *exempt purchaser* allocation indicating for each expression of interest: (a) the name of the *exempt purchaser*,

	(b) the name of the employee of the *exempt purchaser* accepting the amount allocated, and (c) the name of the representative of the lead underwriter responsible for affirming the amount allocated to the *exempt purchaser*, time stamped to indicate date and time of affirmation and, (ii) that the lead underwriter has notified in writing all the banking group participants when the entire allotment to *exempt purchasers* has been affirmed pursuant to clause (i) above so that all banking group participants may take advantage of the reduction in the margin requirement. Under no circumstances may the lead underwriter reduce its own margin requirement on a *commitment* due to such expressions of interest from *exempt purchasers* without providing notification to the rest of the banking group.
"commitment"	Pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities means, where all other non-pricing agreement terms have been agreed to, where two of the following three pricing terms have been agreed to: (i) issue price, (ii) number of shares, or (iii) commitment amount (issue price x number of shares).
"disaster out clause"	A provision in an underwriting agreement substantially in the following form: "The obligations of the Underwriter (or any of them) to purchase (the Securities) under this agreement may be terminated by the Underwriter (or any of them) at its option by written notice to that effect to the Company at any time prior to the Closing if there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which in the opinion of the Underwriter seriously adversely affects, or involves, or will seriously adversely affect, or involve, the financial markets or the business, operations or affairs of the Company and its subsidiaries taken as a whole."
"exempt purchaser"	An accredited investor that qualifies as an *institutional client*.
"market out clause"	A provision in an underwriting agreement which permits an underwriter to terminate its obligation to purchase in the event of unsalability due to market conditions, substantially in the following form: "If, after the date hereof and prior to the Time of Closing, the state of financial markets in Canada or elsewhere where it is planned to market the Securities is such that, in the reasonable opinion of the Underwriters (or any of them), the Securities cannot be marketed profitably, any Underwriter shall be entitled, at its option, to terminate its obligations under this agreement by notice to that effect given to the Company at or prior to the Time of Closing."
"new issue letter"	An underwriting loan facility in a form satisfactory to ~~*IIROC*~~the *Corporation*.
"normal new issue margin"	(i) Where, in the case of an *equity security*, the *market value* is $2.00 per share or more and the *equity security* qualifies for inclusion on the List of Securities Eligible for Reduced Margin, 60% of *normal margin* for the period from the date of commitment to the *business day* prior to settlement date and 100% of *normal margin* from settlement date on,

	(ii) where, in the case of an *equity security*, the *market value* of the security is $2.00 per share or more and the security does not qualify for inclusion on the List of Securities Eligible for Reduced Margin, 80% of *normal margin* for the period from the date of commitment to the *business day* prior to settlement date and 100% of *normal margin* from settlement date on, or (iii) in all other instances, 100% of *normal margin*.
"trading on a when issued basis"	Purchases or sales of a security to be issued under: (i) a prospectus offering if a receipt for a (final) prospectus for the security has been issued but the offering has not closed and settled, (ii) a proposed plan of arrangement, an amalgamation, or a take-over bid, prior to the date the security is issued under the amalgamation, arrangement or take-over bid, or (iii) any other transaction that is subject to the satisfaction of certain conditions, provided that the trading of the security on a when issued basis would not contravene *securities laws*.

(6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

"capital share"	A share issued by a *split share company* that represents all or most of the capital appreciation part of an underlying common share.
"capital share conversion loss"	Any excess of the *market value* of a *capital share* position over its *retraction value.*
"combined conversion loss"	Any excess of the combined *market value* of positions in *capital shares* and *split share preferred shares* over their combined *retraction value.*
"conversion loss"	Any excess *market value* of a *convertible security* position over the *market value* of the *equivalent number* of *underlying securities.*
"convertible security"	A convertible security, exchangeable security or any other security that entitles the holder to acquire another security, the *underlying security*, upon exercising a conversion or exchange feature.
"currently convertible"	A security that is: (i) convertible within 20 *business days* into another security, the *underlying security*, or (ii) convertible after the expiry of a specific period into another security, the *underlying security*, and the *Dealer Member* or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until conversion.
"currently exercisable"	A security that is exercisable into the *underlying security*: (i) exercisable within 20 *business days* into another security, the *underlying security*, or (ii) exercisable after the expiry of a specific period into another security, the *underlying security*, and the *Dealer Member* or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until exercise.

"exercisable security"	A warrant, right, *installment receipt*, or any other security entitling the holder to acquire the *underlying security* after making an exercise or subscription payment.
"exercise loss"	Any excess of the sum of the *market value* of an *exercisable security* position and its exercise or subscription payment requirement over the *market value* of the *equivalent number* of *underlying securities*.
"Newco securities"	Securities of a successor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
"Oldco securities"	Securities of a predecessor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
"retraction value"	A value assigned to *capital shares* or a combination of *capital shares* and *split share preferred shares*, and is calculated as follows: (i) for *capital shares*: (a) where the *capital shares* can be tendered to the *split share company* for retraction directly for the underlying common shares, at the option of the holder, the excess of the *market value* of the underlying common shares received over the retraction cash payment to be made when retraction of the *capital shares* takes place, (b) where the *capital shares* cannot be tendered to the *split share company* for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the *capital shares* takes place, (ii) for *capital shares* and *split share preferred shares* in combination: (a) where the *capital shares* and *split share preferred shares* can be tendered to the *split share company* for retraction directly for the underlying common shares, at the option of the holder, the *market value* of the underlying common shares received, (b) where the *capital shares* and *split share preferred shares* cannot be tendered to the *split share company* for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the capital and *split share preferred shares* takes place.
"split share company"	A corporation formed for the sole purpose of acquiring underlying common shares and issuing its own: (i) *capital shares* based on all or most of the capital appreciation portion, and (ii) *split share preferred shares* based on all or most of the dividend income portion, of those underlying common shares.
"split share preferred share"	A share issued by a *split share company* that represents all or most of the dividend part of the underlying common share, and includes equity dividend shares of *split share companies*.

(7) For positions in and offsets involving swaps, the term:

"fixed interest rate"	An interest rate that is not reset at least every 90 days.
"floating interest rate"	An interest rate that is not a *fixed interest rate*.

"interest rate swap"	An agreement under which a *Dealer Member* is required to pay a fixed (floating) rate and entitled to receive a floating (fixed) rate amount calculated with reference to a notional amount.
"realization clause"	An optional clause within a *total performance swap* agreement which allows the *Dealer Member* to close out the swap agreement at the realization price (either the buy-in or sell-out price) of the security position involved in the offset.
"total performance swap"	An agreement under which a *Dealer Member* is required to pay and entitled to receive amounts calculated: (i) based on the performance of a specified *underlying security* or *underlying basket of securities*, and (ii) with reference to a notional amount.

(8) For positions in and offsets involving foreign exchange exposures, the term:

"foreign exchange position"	A *monetary asset or liability* including a: (i) currency spot position, (ii) futures and forward contract, (iii) swap, and (iv) any other transaction resulting in exposure to foreign exchange rate risk, that is denominated in a foreign currency.
"monetary asset or liability", "monetary asset", "monetary liability"	A *Dealer Member's* asset or liability: (i) in money and claims to money, (ii) denominated in foreign or domestic currency, and (iii) that is fixed by contract or otherwise.
"net long (short) foreign exchange position"	The net of *monetary assets* and liabilities as calculated on Form 1, Schedule 11.
"spot exchange rate"	The rate quoted by a recognized quote vendor for contracts with a *term to maturity* of one day.
"term to maturity"	For a *monetary asset or liability* means the amount of time from the present to the time when the claim to the *monetary asset* or the obligation to satisfy the *monetary liability* expires.

(9) For positions in and offsets involving *derivative* products, the term:

"aggregate current value"	For *index options*: *index* level x $1.00 x *unit of trading*
"aggregate exercise value"	For *options*: option *exercise price* x *unit of trading*
"at-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value of the *underlying interest* is equal to the *exercise price* for a *call option* or a *put option*.

"call option"	(i) An *exchange-traded option* that: (a) for equity, *index participation unit,* debt and currency *options,* gives a holder the right to buy and the writer the obligation to sell the *underlying interest* at a stated *exercise price* on or before the *option* expiration date, and (b) for *index option*s, gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* rises above the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the *option* expiration date, (ii) an *over-the-counter option* that either: (a) gives a holder the right to buy and the writer the obligation to sell the *underlying interest* at a stated *exercise price* on or before the option expiration date, or (b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the *underlying interest* rises above the *exercise price*, the difference between the aggregate *exercise price* and the current value of the *underlying interest* on or before the option expiration date.
"clearing corporation"	The Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the *Board*.
"cumulative relative weight percentage"	An overall relative weight percentage determined by calculating, in accordance with subsection 5360(5), the actual basket weighting for each security in a *qualifying basket of index securities* in relation to its latest published relative weighting in the *index*.
"escrow receipt"	A document issued by a financial institution approved by a *clearing corporation* certifying that a security is held and will be delivered by that financial institution when a specified *option* is exercised.
"exchange-traded option"	A call option or put option issued by the Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the *Board*.
"exercise price"	(i) For equity, *index participation unit*, debt and currency *options*, the specified price per unit at which the *underlying interest* may be bought under a *call option*, or sold under a *put option*, and (ii) for *index options*, the specified price per unit that may be received by the holder and paid by the writer under a *call option* or a *put option*, on exercise of the *option.*
"floating margin rate"	The floating margin rate set by ~~*IIROC*~~the *Corporation* in accordance with subsection 5360(3).
"incremental basket margin rate"	The incremental basket rate for a *qualifying basket of index securities* calculated in accordance with subsection 5360(6).
"index"	An equity index in which: (i) the basket of *equity securities* underlying the index consists of eight or more securities, (ii) the single largest security position by weighting comprises not more than 35% of the overall *market value* of the basket,

	(iii) the average market capitalization for each security position in the basket of *equity securities* underlying the index is at least $50 million, and (iv) the securities constituting the foreign equity index are listed and traded on an exchange that meets the criteria for an *acceptable exchange*.
"index futures contract"	An exchange-traded *futures contract* with an *underlying interest* that is an *index*.
"index option"	An *exchange-traded option* with an *underlying interest* that is an *index.*
"index participation unit"	An interest in a trust or other entity that has assets consisting of equities or other securities underlying an *index*.
"index participation unit option"	An option with an *underlying interest* that is an *index participation unit*.
"in-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value, of the *underlying interest* is above the *exercise price* for a *call option*, and below the *exercise price* for a *put option*.
"out-of-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value of the *underlying interest* is below the *exercise price* of a *call option*, and above the *exercise price* of a *put option.*
"over-the-counter option"	A *call option* or a *put option* other than an *exchange-traded option.*
"premium"	The aggregate price, excluding commissions and other fees, that the option buyer pays and the option writer receives for the rights under the option contract.
"put option"	(i) An *exchange-traded option* that: (a) for equity, *index participation unit,* debt and currency *options*, gives the holder the right to sell and the writer the obligation to buy the *underlying interest* at a stated *exercise price* on or before the *option* expiration date, and (b) for *index options*, gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* falls below the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the option expiration date, (ii) an *over-the-counter option* that either: (a) gives the holder the right to sell and the writer the obligation to buy the *underlying interest* at a stated *exercise price* on or before the option expiration date, or (b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* falls below the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the option expiration date.

"qualifying basket of index securities"	A basket of *equity securities* with the characteristics in subsection 5360(4).
"regular reset date"	The date after the last reset date if the maximum number of trading days in the *regular reset period* has passed.
"regular reset period"	The normal period between margin rate resets. This period is determined by ~~*IIROC*~~the *Corporation* and is not longer than 60 trading days.
"regulatory margin interval"	~~*IIROC*~~The *Corporation's* regulatory margin calculation determined in accordance with subsection 5360(2).
"time value"	An excess of the *market value* of an option over the *in-the-money* value of the option.
"tracking error margin rate"	The last calculated *regulatory margin interval* for the tracking error resulting from a particular offset strategy.
"unit of trading"	The number of units of the *underlying interest* that have been designated by an exchange as the minimum number or value to be the subject for a single option in a series of options. If there is no such designation, for a series of options the following rules apply: Underlying interest — Unit of trading (i) equity — 100 shares (ii) *index participation unit* — 100 units (iii) debt — 250 units (iv) *index* — 100 units
"violation"	Occurs if the maximum one or two day percentage change in the daily closing prices is greater than the margin rate.

5131. - 5199. Reserved.

RULE 5200 | MARGIN REQUIREMENTS FOR DEBT SECURITIES AND MORTGAGES

5201. Introduction

(1) Rule 5200 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:

(i) government *debt securities* not in default [sections 5210 through 5214],

(ii) commercial and corporate *debt securities* not in default [sections 5220 through 5226], and

(iii) *debt securities* in default [section 5230].

(2) Rule 5200 also describes the circumstances under which the debt margin surcharge applies, and details the calculation thereof [sections 5240 and 5241].

(3) Rule 5200 also sets out specific *Dealer Member inventory margin* and *client account margin* requirements for mortgages [section 5250].

(4) The margin requirements for *debt securities* subject to redemption call or offer are set out in Rule 5400.

(5) The *Dealer Member inventory margin* requirements for *debt security* underwriting commitments are set out in Rule 5500.

5202. - 5209. Reserved.

GOVERNMENT DEBT SECURITIES

5210. Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default are as follows:

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) **Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating**	**Category (ii)** **Canadian provincial government, and obligations of the International Bank for Reconstruction and Development**	**Category (iii)** **Canadian and United Kingdom municipal corporations**
Less than 1 year	1.00% x number of $\frac{\text{days to maturity}}{365}$	2.00% x number of $\frac{\text{days to maturity}}{365}$	3.00% x number of $\frac{\text{days to maturity}}{365}$
Greater than or equal to 1 year and less than 3 years	1.00%	3.00%	5.00%

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	**Category (ii)** Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	**Category (iii)** Canadian and United Kingdom municipal corporations
Greater than or equal to 3 years and less than 7 years	2.00%	4.00%	
Greater than or equal to 7 years and less than 11 years	4.00%	5.00%	
Greater than or equal to 11 years			

(2) In subsection 5210(1) category (i), a country with a "high current credit rating" is a country that is currently rated ~~Aaa by Moody's or~~ AAA by ~~S&P Corporation~~*a designated rating organization*.

> ~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5210(2) will be repealed and replaced with the following:**~~
>
> ~~In subsection 5210(1) category (i), a country with a "high current credit rating" is a country that is currently rated AAA by a *designated rating organization*.~~

(3) In subsection 5210(1) category (ii), British Columbia government guaranteed parity bonds, the margin requirement for a long position must be at least 0.25% of the par value of the bonds.

(4) If a security in subsection 5210(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.

5211. Government residual debt and stripped coupons not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for the Government residual debt and stripped coupons not in default are as follows:

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	**Category (ii)** Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	**Category (iii)** Canadian and United Kingdom municipal corporations
Less than 1 year	1.50% x number of days to maturity / 365	3.00% x number of days to maturity / 365	4.50% x number of days to maturity / 365

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	**Category (ii)** Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	**Category (iii)** Canadian and United Kingdom municipal corporations
Greater than or equal to 1 year and less than 3 years	1.50%	4.50%	7.50%
Greater than or equal to 3 years and less than 7 years	3.00%	6.00%	
Greater than or equal to 7 years and less than 11 years	6.00%	7.50%	
Greater than or equal to 11 years and less than 20 years			
Greater than or equal to 20 years	12.00%	15.00%	15.00%

(2) In subsection 5211(1) category (i), a country with a "high current credit rating" is a country that is currently rated ~~Aaa by Moody's or~~ AAA by ~~S&P Corporation~~a *designated rating organization*.

> ~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5211(2) will be repealed and replaced with the following:**~~
>
> ~~In subsection 5211(1) category (i), a country with a "high current credit rating" is a country that is currently rated AAA by a *designated rating organization*.~~

(3) In subsection 5211(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5212. Government floating rate debt obligations

(1) The minimum margin required for government *floating rate debt obligations* held in *Dealer Member* inventory and client accounts is the sum of:

(i) 50% of the margin otherwise applicable to the par value of the *debt security*, and

(ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

5213. Government mortgage-backed securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for government mortgage-backed securities are as follows:

Security type	Minimum margin requirement expressed as a percentage of market value

Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5210(1) as a government debt issuer, 1.25 times the applicable rate set out in subsection 5210(1), or (ii) under subsection 5214(1) as another non-commercial debt issuer, 1.25 times the applicable rate set out in subsection 5214(1).

5214. Other non-commercial issuers not qualifying under sections 5210 through 5212

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities of all other non-commercial issuers not qualifying under sections 5210 through 5212 are as follows:

	Minimum margin required as a percentage of market value	
Term to maturity or redemption	**Category (i)** **All other non-commercial issuers' bonds and debentures not qualifying under sections 5210 through 5212**	**Category (ii)** **All other non-commercial issuers' residual debt and stripped coupons not qualifying under sections 5210 through 5212**
Less than 1 year	10.00%	15.00%
Greater than or equal to 1 year and less than 3 years		
Greater than or equal to 3 years and less than 7 years		
~~reater~~Greater than or equal to 7 years and less than 11 years		
Greater than or equal to 11 years and less than 20 years		
Greater than or equal to 20 years		30.00%

(2) If a security in subsection 5214(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.

(3) In subsection 5214(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5215. - 5219. Reserved.

CORPORATE DEBT SECURITIES

5220. Commercial and corporate bonds, debentures, notes and other securities not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for commercial and corporate bonds, debentures, notes and other securities not in default are as follows:

Term to maturity	Minimum margin required as a percentage of market value	
	Category (i) **Commercial and corporate bonds, debentures and notes and non-negotiable and non-transferable trust and mortgage loan company obligations registered in the Dealer Member's name; and** **acceptable commercial, corporate and finance company notes and readily negotiable and transferable trust and mortgage loan company obligations.**	**Category (ii)** **Canadian and foreign category (i) issues and obligations with a market value of 50% or less of par value and with a low current credit rating**
Within 1 year	3.00% x number of days to maturity 365	50.00%
Over 1 to 3 years	6.00%	
Over 3 to 7 years	7.00%	
Over 7 to 11 years	10.00%	
Over 11 years		

(2) In subsection 5220(1) category (i), *acceptable commercial, corporate and finance company notes* means notes issued by a company that comply with the following requirements:

(i) In the case of a note of a Canadian incorporated issuer:

(a) the issuer must have a net worth of at least $10,000,000,

(b) the note must be guaranteed by another company with a net worth of at least $10,000,000, or

(c) the issuer must have a binding agreement with another company with net worth of at least $25,000,000 to pay the issuer or a noteholders' trustee any note indebtedness outstanding.

(ii) In the case of a note of a foreign incorporated issuer:

(a) the issuer must have a net worth of at least $25,000,000, or

(b) the note must be guaranteed by a foreign incorporated company with a net worth of at least $25,000,000.

5221. Convertible commercial and corporate bonds, debentures, notes and other securities not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial and corporate bonds, debentures, and notes not in default, and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the *Dealer Member's* name are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount		
	Category (i) **Margin required when market value is above par value**	**Category (ii)** **Margin required when market value is at or below par value**	**Category (iii)** **Margin required when market value is 50% or less of par value and issuer has a low current credit rating**
Basic margin requirement			
Within 1 year	3.00% x number of days to maturity 365 multiplied by par value plus any excess of convertible debt *market value* over convertible debt par value.	3.00% x number of days to maturity 365 multiplied by par value	50.00% of *market value*
Over 1 to 3 years	6.00% of par value plus any excess of convertible debt *market value* over convertible debt par value.	6.00% of *market value*	
Over 3 to 7 years	7.00% of par value plus any excess of convertible debt *market value* over convertible debt par value.	7.00% of *market value*	
Over 7 to 11 years Over 11 years	10.00% of par value plus any excess of convertible debt *market value* over convertible debt par value.	10.00% of *market value*	
Alternative margin requirement			
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) through (iii) as the sum of the margin required for the *underlying security* plus any excess of the convertible debt *market value* over the *underlying security market value*.			

5222. Bank paper not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for bank paper not in default are as follows:

Term to maturity	Minimum margin required as a percentage of market value		
	Category (i) Bank acceptances, deposit certificates, promissory notes and debentures issued by a Canadian chartered bank	**Category (ii)** Bank acceptances, deposit certificates, promissory notes issued by a foreign bank with a net worth (capital + reserves) of not less than $200 million	**Category (iii)** Canadian and foreign category (i) and (ii) issues and obligations with a market value of 50% or less of par value and with a low current credit rating
Within 1 year	2.00% x $\frac{\text{number of days to maturity}}{365}$		50.00%
Over 1 to 3 years	6.00%		
Over 3 to 7 years	7.00%		
Over 7 to 11 years	10.00%		
Over 11 years			

5223. Commercial residual debt and stripped coupons not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for commercial residual debt and stripped coupons not in default are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value	
	Category (i) Commercial residual debt and stripped coupons	**Category (ii)** Commercial residual debt and stripped coupons where the underlying security has a market value of 50% or less of par value and has a low current credit rating
Within 1 year	4.50% x $\frac{\text{number of days to maturity}}{365}$	50.00%
Over 1 to 3 years	9.00%	
Over 3 to 7 years	10.50%	
Over 7 to 11 years	15.00%	
Over 11 to 20 years		
Over 20 years	30.00%	

(2) In subsection 5223(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5224. Convertible commercial residual debt not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial residual debt not in default are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount	
	Category (i) **Margin required for commercial convertible residual debt**	**Category (ii)** **Margin required for commercial convertible residual debt where the underlying security has a market value of 50% or less of par value and has a low current credit rating**
Basic margin requirement		
Within 1 year	The greater of: (a) margin calculated for *underlying security* under subsection 5221(1), and (b) margin calculated for residual debt instrument under subsection 5223(1).	50.00%
Over 1 to 3 years		
Over 3 to 7 years		
Over 7 to 11 years		
Over 11 to 20 years		
Over 20 years		
Alternative margin requirement		
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) and (ii) as the sum of the margin required for the *underlying security* plus any excess of the convertible debt *market value* over the *underlying security market value*.		

5225. Commercial and corporate floating rate debt obligations not in default

(1) The minimum margin required for commercial and corporate *floating rate debt obligations* not in default held in *Dealer Member* inventory and client accounts is the sum of:

(i) 50% of the margin otherwise applicable to the par value of the *debt security*, and

(ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

5226. Commercial and corporate income bonds not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for income bonds not in default are as follows:

Minimum margin required expressed as a percentage of market value	
Category (i) **Income bonds currently and for the past two years paying interest at the full stated rate**	**Category (ii)** **All other income bonds**
10.00%	50.00%

(2) To qualify under subsection 5226(1), the trust indenture must specify:

(i) an interest rate, and

(ii) that interest must be paid if earned.

5227. Commercial and corporate mortgage-backed securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for mortgage-backed securities are as follows:

Security type	Minimum margin required expressed as a percentage of market value
Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5220(1) as commercial and corporate debt issuer, 1.25 times the applicable rate set out in subsection 5220(1), or (ii) under subsection 5222(1) as a bank paper issuer, 1.25 times the applicable rate set out in subsection 5222(1).

5228. - 5229. Reserved.

DEBT SECURITIES IN DEFAULT

5230. Debt securities in default

(1) The minimum margin required for debt in default is 50% of *market value*.

5231. - 5239. Reserved.

DEBT MARGIN SURCHARGE

5240. Circumstances under which debt margin surcharge is imposed

(1) Higher margin requirements for *debt securities*, by way of a margin surcharge, may be established by ~~*IIROC*~~the *Corporation* in response to market conditions.

(2) ~~*IIROC*~~The *Corporation* monitors the price volatility of *debt securities* that *Dealer Members* trade, determines when a margin surcharge is required, and when it is no longer required.

(3) The margin surcharge required under this section 5240 is:

(i) 50% of the margin required in sections 5210 through 5226, and

(ii) required for at least 30 days.

(4) A *Dealer Member* will be notified by ~~*IIROC*~~the *Corporation* of the imposition or revocation of a margin surcharge promptly following ~~*IIROC*~~the *Corporation* determining that the margin surcharge is, or is no longer, required. The notice is effective, and a *Dealer Member* must be in compliance with it, not less than five days after it is given.

5241. Determining debt margin surcharge

(1) ~~*IIROC*~~The *Corporation* determines the debt margin surcharge according to the calculations in section 5241.

(2) ~~IIROC~~The *Corporation* monitors government of Canada - issued *debt securities* maturing in each of the three periods:

(i) over 1 year to 3 years,

(ii) over 3 years to 7 years, and

(iii) over 7 years,

for price volatility in the primary markets in which a *Dealer Member* trades them. Each maturity is considered a separate class of *debt securities*.

(3) ~~IIROC~~The *Corporation* measures price volatility as follows:

(i) start with the closing price on a trading day for a security in monitored markets (the base day),

(ii) compare the closing price of a security on each of the four trading days after the base day to the closing price in clause 5241(3)(i),

(iii) the first day (if any) of the four days in clause 5241(3)(ii) on which the percentage change in price (negative or positive) between the closing price on that day and the closing price in clause (i) is greater than the margin rate required in Rule 5200, is an "offside base day",

(iv) if an offside base day has occurred, it becomes the base day for making further comparisons under clauses 5241(3)(i) and 5241(3)(ii),

(v) if an offside base day does not occur in the four trading days following the base day, then the trading day after the base day becomes the new base day, and the calculations under clauses 5241(3)(ii) through 5241(3)(iv) are made with reference to that new base day,

(vi) for any 90 day period, ~~IIROC~~the *Corporation* must determine *p%* as follows:

$$\frac{\text{\# of offside base days} \times 100}{\text{total \# trading days in the period}} = p\%$$

(vii) If *p%* is greater than 5% for any two of the three classes of *debt securities* monitored, a margin surcharge will be required.

(4) After a margin surcharge has been required for at least 30 days under subsection 5240(3), ~~IIROC~~the *Corporation* will look at the number of offside base days. If the number of offside base days is not more than 5% of the total number of trading days in the immediately preceding 90 day period, the margin surcharge will no longer be required.

5242. - 5249. Reserved.

MORTGAGES

5250. Mortgages

(1) The minimum *Dealer Member inventory margin* requirements for mortgages are as follows:

Mortgage type	**Minimum margin requirement expressed as a percentage of market value**
National Housing Act insured mortgage	6%
Conventional first mortgage	12% or the rate set by the *chartered banks*, whichever is greater

(2) Client account positions in mortgages may not be carried on margin.

5251. - 5299. Reserved.

RULE 5300 | MARGIN REQUIREMENTS FOR EQUITY SECURITIES AND INDEX PRODUCTS

5301. Introduction

(1) Rule 5300 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:

(i) *equity securities* [sections 5310 through 5315],

(ii) *installment receipts* [section 5320],

(iii) convertible and exchangeable equities [section 5330],

(iv) *control blocks* [sections 5340],

(v) rights and warrants [section 5350],

(vi) index products [section 5360], and

(vii) securities held in a *Trader's* account [section 5370].

(2) The margin requirements for *equity securities* subject to redemption call or offer are set out in Rule 5400.

(3) The *Dealer Member inventory margin* requirements for *equity security* underwriting *commitments* are set out in Rule 5500.

(4) The margin requirements for when issued trading are set out in Rule 5500.

5302. - 5309. Reserved.

EQUITY SECURITIES

5310. Determining the basic margin requirement

(1) Where a security is eligible to be margined using the *basic margin requirement* approach, the minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) are as follows:

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
Long positions:	
Market value of $2.00 or more per share and qualifying for inclusion on the List of Securities Eligible for Reduced Margin published by ~~*IIROC*~~*the Corporation*	25% for *Dealer Member* positions; 30% for client account positions
All other positions with a *market value* of $2.00 or more per share	50%
Market value of $1.75 per share to $1.99 per share	60%
Market value of $1.50 per share to $1.74 per share	80%
Market value of below $1.50 per share	100%

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
Short positions:	
Market value of $2.00 or more per share and qualifying for inclusion on the List of Securities Eligible for Reduced Margin published by ~~*IIROC*~~the *Corporation*	25% for *Dealer Member* positions; 30% for client account positions
All other positions with a *market value* of $2.00 or more per share	50%
Market value of $1.75 per share to $1.99 per share	60%
Market value of $1.50 per share to $1.74 per share	80%
Market value of $0.25 per share to $1.49 per share	100%
Market value of below $0.25 per share	$0.25 per share

5311. Canada and United States equity securities eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *Canada and United States listed equity securities eligible for margin* are the basic margin requirements in section 5310.

(2) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *Canada and United States unlisted equity securities eligible for margin* are the basic margin requirements in section 5310.

5312. Foreign listed equity securities eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rate for *foreign listed equity securities eligible for margin* is 50%.

5313. Government guaranteed equity securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* rate for *government guaranteed equity securities* is 25%.

5314. Floating rate preferred shares

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for *floating rate preferred shares* are as follows:

Default status and conversion features	Minimum margin required		
Not in default of any dividend payment			
Floating rate preferred shares of issuer	50% of margin rate for related common share of issuer	x	*market value* of preferred shares
Floating rate preferred shares with a *market value* at or below par value and convertible into other securities of issuer	50% of margin rate for related common share of issuer	x	*market value* of preferred shares

Default status and conversion features	Minimum margin required
Not in default of any dividend payment	
Floating rate preferred shares with a *market value* above par value and convertible into other securities of issuer	The lesser of: (i) (a) 50% of margin rate for related common share of issuer x preferred share par value, + (b) preferred share *market value* - preferred share par value, and (ii) (a) the margin required under Rule 5200, 5300 or 5400 for the *underlying security*, + (b) the *market value* of the preferred shares - the *market value* of the *underlying security*
In default of one or more dividend payments	
All *floating rate preferred shares* in default whether convertible or not	50% of margin rate for related common share of issuer x *market value* of preferred shares

5315. Other equity securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *equity securities* not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1) are as follows:

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share **Category (i)** **Equity securities not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1)**
Long positions:	
All *market value* per share levels	100%
Short positions:	
Market value of $0.50 per share and above	100%
Market value of below $0.50 per share	$0.50 per share

5316. - 5319. Reserved.

INSTALLMENT RECEIPTS

5320. Installment receipts

(1) A *Dealer Member* must calculate *Dealer Member inventory margin* and *client account margin* for *installment receipt* long positions according to the following:

Account where position is held	Minimum margin required
Held in *Dealer Member* inventory account	100% of margin required for *underlying security* plus any excess of the future installment payments over the *market value* of the *underlying security*
Held in client account	The lesser of 100% of margin required for *underlying security* and the *market value* of the *installment receipt*

(2) A *Dealer Member* may purchase and hold an *installment receipt* for its own account as beneficial owner.

(3) A *Dealer Member* may hold an *installment receipt* for a client registered in the *Dealer Member's* or its nominee name.

(4) A *Dealer Member* must not purchase or hold an *installment receipt* that requires it or its nominee to make payment under the *installment receipt*.

(5) Subsection 5320(4) does not apply:

(i) to a *Dealer Member's* payments for its own account as beneficial owner of the *installment receipt*, or

(ii) if the agreement creating and issuing the *installment receipts* releases the *Dealer Member* or its nominee from the requirement to make the payments in subsection 5320(4) either by:

(a) transferring the *installment receipt* to another *person* if an installment is not paid in full when due, or

(b) another mechanism approved by ~~*IIROC*~~the *Corporation*.

(iii) The transfer in sub-clause 5320(5)(ii)(a) must be able to occur at any time before:

(a) the close of business (Toronto time) on the second *business day* after default in payment of an installment, and

(b) the issuer's or selling security holder's rights arising from non-payment of the installment can be enforced.

(6) If an installment on an *installment receipt* held for a client in subsection 5320(4) has not been paid in full when due, the *Dealer Member* must promptly take steps necessary to be released from any requirements to pay the installment or any *future payments*. The *Dealer Member* must take steps within the time permitted by the agreement creating and issuing the *installment receipts*. If appropriate or necessary, the *Dealer Member* must transfer the *installment receipt* to another *person*.

5321. - 5329. Reserved.

CONVERTIBLE AND EXCHANGEABLE EQUITIES

5330. Convertible and exchangeable equities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements calculated for convertible and exchangeable *equity securities* may be limited to an overall maximum margin requirement calculated as follows:

Minimum margin required
Category (i) **Equity security currently convertible into or exchangeable for another security**
The sum of : (a) the margin required under Rule 5300 for the *underlying security*, plus (b) any excess of the *market value* of the convertible or exchangeable *equity security* over the *market value* of the *underlying security*.

5331. - 5339. Reserved.

CONTROL BLOCKS

5340. Control blocks

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates for *control blocks* are 100% unless the position is part of an underwriting *commitment* that is subject to the requirements of Rule 5500.

5341. - 5349. Reserved.

RIGHTS AND WARRANTS

5350. Canada and United States rights and warrants eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for unlisted warrants issued by a *chartered bank* and Canada and United States listed rights and warrants are as follows:

Minimum margin required	
Category (i) **Unlisted warrants issued by a Canadian chartered bank entitling the holder to buy securities issued by the Government of Canada or a Canadian province**	**Category (ii)** **Canada and United States listed rights and warrants**
The lesser of: (a) 100% of the *market value* of the warrant, and (b) the margin required for warrant's *underlying security*.	

5351. - 5359. Reserved.

INDEX PRODUCTS

5360. Index participation units and qualifying baskets of index securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for *index participation units* and *qualifying baskets of index securities* are as follows:

Minimum margin required	
Category (i) **Index participation units**	**Category (ii)** **Qualifying basket of index securities**
(a) The *floating margin rate* percentage (calculated for *index participation unit* based on its *regulatory margin interval*), multiplied by (b) The *market value* of *index participation units*.	(a) The sum of: (i) The *floating margin rate* percentage (calculated for a perfect basket of index securities based on its *regulatory margin interval*), and (ii) The calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by (b) The *market value* of *qualifying basket of index securities*.

(2) ~~*IIROC*~~The *Corporation* calculates a *regulatory margin interval* according to the following formula:

Maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90, 260 trading days x 3 (for a 99% confidence interval) x Square root of 2 (for 2 days price risk coverage)

rounded up to the next ¼%.

(3) To calculate the *floating margin rate* for an *index participation unit* or a perfect basket of index securities:

(i) ~~*IIROC*~~the *Corporation* uses the last calculated *regulatory margin interval*, which is effective for the *regular reset period* unless a *violation* occurs,

(ii) in normal circumstances, the *floating margin rate* is reset on the *regular reset date* to the *regulatory margin interval* calculated as at the *regular reset date*,

(iii) if a *violation* occurs, the *floating margin rate* is reset on the date the *violation* occurs to the *regulatory margin interval* determined as at the date of the *violation*, and

(iv) the *regulatory margin interval* determined in clause 5360(3)(iii) must be effective for a minimum of 20 trading days and reset at the close of the 20th trading day to the *regulatory margin interval* determined as at that date if a reset results in a lower margin rate.

(4) A basket of *equity securities* is a *qualifying basket of index securities* if:

(i) all of the securities in the basket are included in the composition of the same *index*,

(ii) the basket comprises a portfolio with a *market value* equal to the *market value* of the *underlying securities* in the *index*,

(iii) the *market value* of each *equity security* comprising the portfolio proportionally equals or exceeds the *market value* of its relative weight in the *index*, based on the latest published relative weights of securities comprising the *index*, and

(iv) the required *cumulative relative weight percentage* of all *equity securities* comprising the portfolio:

(a) equals 100% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of less than 20 securities,

(b) equals or exceeds 90% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 20 or more securities but less than 100 securities, and

(c) equals or exceeds 80% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 100 or more securities,

based on the latest published relative weightings of the *equity securities* comprising the *index*.

(v) If the cumulative relative weighting of all *equity securities* in the basket equals or exceeds the required *cumulative relative weight percentage* and is less than 100% of the cumulative weighting of the corresponding *index*, the deficiency in the basket must be filled by other *equity securities* included in the composition of the *index*.

(5) The *cumulative relative weight percentage* is determined:

(i) by calculating for each security in a *qualifying basket of index securities*:

(a) its actual basket weighting, and

(b) its latest published relative weighting in the *index*,

and then,

(ii) by summing the lesser of the two weighting percentages calculated for each security in sub-clauses 5360(5)(i)(a) and 5360(5)(i)(b) for all of the securities in the *qualifying basket of index securities*.

(6) The *incremental basket margin rate* for a *qualifying basket of index securities* is calculated as the sum:

Market value of each underweighted security in basket	x	Margin rate for that security	x	The % by which the security is underweighted (calculated according to the formula: published relative weighting of the security - actual basket weighting of the security)

for each underweighted security in the basket.

5361. - 5369. Reserved.

5370. Securities held in a Trader's account

(1) The minimum *Dealer Member inventory margin* for a security position held in a *Trader's* account is 25% of the *market value* of such security provided:

(i) the *Trader* has responsibility or has "on post" trading privileges for the security,

(ii) the security is eligible for margin pursuant to section 5311,

(iii) the security does not qualify for a 25% margin rate pursuant to section 5311, and

(iv) the security has traded at a value of at or above $2.00 per share for the previous calendar quarter.

(2) The reduced margin available under subsection 5370(1) may be applied to a maximum total security *market value* in all *Trader's* accounts of:

(i) $100,000, if 90,000 shares of more of the security were traded in the previous calendar quarter, and

(ii) $50,000, if less than 90,000 shares of the security were traded in the previous calendar quarter.

The minimum *Dealer Member inventory margin* on security position amounts over $100,000 and $50,000, respectively, shall be the minimum margin otherwise required pursuant to section 5311.

(3) The reduced margin available for all security positions under subsection 5370(1) shall not exceed 50% of the *Dealer Member's* net allowable assets.

5371. - 5399. Reserved.

RULE 5400 | MARGIN REQUIREMENTS FOR OTHER INVESTMENT PRODUCTS

5401. Introduction

(1) Rule 5400 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for investment products not covered in Rules 5200 or 5300. The order of subjects in Rule 5400 is:

(i) securities subject to redemption call or offer [section 5410],

(ii) units [section 5420],

(iii) precious metal certificates and bullion [section 5430],

(iv) swap contracts [sections 5440 through 5442],

(v) mutual fund positions [section 5450], and

(vi) foreign exchange positions [sections 5460 through 5469].

5402. - 5409. Reserved.

SECURITIES SUBJECT TO REDEMPTION CALL OR OFFER

5410. Securities subject to redemption call or offer

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities subject to redemption call or offer are as follows:

Conditions	Minimum margin required	
	Category (i) **Securities called for cash redemption according to their terms and conditions**	**Category (ii)** **Securities subject to a binding cash offer, for which all conditions have been met**
Cash offer for all the issued and outstanding class of securities	No margin required provided the *market value* of the position is no greater than the amount of the cash offer	
Cash offer for a fraction of the issued and outstanding class of securities	For fraction subject to cash offer, no margin required provided the *market value* of the fractional position is no greater than the amount of the cash offer. For remainder of the position, *normal margin* (as determined elsewhere in Rules 5200 through 5900) would apply.	

5411. - 5419. Reserved.

UNITS

5420. Units

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirement for units is the sum of the margin required for each of the unit components.

5421. - 5429. Reserved.

PRECIOUS METAL CERTIFICATES AND BULLION

5430. Precious metal certificates and bullion

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for precious metal certificates and bullion are as follows:

Precious metal investment type	Minimum margin required expressed as a percentage of market value
Negotiable certificates issued by *chartered banks* and trust companies authorized to do business in Canada, evidencing an interest in one of gold, platinum or silver	20%
Gold or silver bullion purchased by a *Dealer Member* for inventory or on behalf of a client, from the Royal Canadian Mint or a *chartered bank* that is a market making member, ordinary member or associate member of the London Bullion Market Association	20%

(2) The *Dealer Member* must have a written representation from bullion vendor stating that the bullion are London Bullion Market Association good delivery bars for the bullion to be margin eligible under subsection 5430(1).

5431. - 5439. Reserved.

INTEREST RATE AND TOTAL PERFORMANCE SWAPS

5440. Interest rate swaps

(1) For *interest rate swaps* where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:

(i) where a component is a payment calculated according to a *fixed interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the outstanding term of the swap, multiplied by 125% and in turn multiplied by the notional amount of the swap, and

(ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

5441. Total performance swaps

(1) For *total performance swaps*, where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:

(i) where a component is a payment calculated based on the performance of a stipulated *underlying security* or *underlying basket of securities*, with reference to a notional amount, the margin requirement is the *normal margin required* for the *underlying security* or

underlying basket of securities relating to this component, based on the *market value* of the *underlying security* or *underlying basket of securities*, and

(ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

5442. Swap counterparty margin requirements

(1) The counterparty to the swap agreement is considered the *Dealer Member's* client and the minimum margin the *Dealer Member* shall obtain from the swap client is as follows:

(i) where the swap client is an *acceptable institution*, no margin, or

(ii) where the swap client is an *acceptable counterparty* or *regulated entity*, any *market value* deficiency calculated relating to the swap agreement, or

(iii) where the counterparty is an other counterparty, any *loan value* deficiency calculated relating to the swap agreement determined by using the same approach as set out in sections 5440 and 5441 for *Dealer Member* swap positions.

(2) No margin is required in sub-clause 5442(1)(ii) provided:

(i) the *Dealer Member* takes action to correct the *market value* deficiency, and

(ii) the *market value* deficiency exists for less than one *business day*.

5443. - 5449. Reserved.

MUTUAL FUNDS

5450. Margin requirements for mutual fund positions

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for securities of mutual funds qualified by prospectus for sale in any province of Canada are:

(i) for money market mutual funds (as defined in National Instrument 81-102), 5% of the *market value* of the fund, and

(ii) for all other mutual funds, the margin rate determined in subsection 5310(1) (using the per unit *market value* of the mutual fund) multiplied by the *market value* of the fund.

5451. - 5459. Reserved.

FOREIGN EXCHANGE POSITIONS

5460. General margin requirements for foreign exchange positions

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for a particular *foreign exchange position* are the aggregate of the spot risk margin requirement and term risk margin requirement, calculated using one of the following groups of spot risk margin rates and term risk margin rates for the relevant foreign currency:

	Spot risk and term risk margin required as a percentage of market value of the foreign exchange position			
	Currency Group			
	1	2	3	4
Spot risk margin rate	greater of: (i) 1.00% and (ii) spot risk surcharge rate	greater of: (i) 3.00% and (ii) spot risk surcharge rate	greater of: (i) 10.00% and (ii) spot risk surcharge rate	25.00%
Term risk margin rate	lesser of: (i) 1.00% x *foreign exchange position term to maturity*, and (ii) 4.00%	lesser of: (i) 3.00% x *foreign exchange position term to maturity*, and (ii) 7.00%	lesser of: (i) 5.00% x *foreign exchange position term to maturity*, and (ii) 10.00%	lesser of: (i) 12.50% x *foreign exchange position term to maturity*, and (ii) 25.00%

(2) The foreign exchange currency group that a particular country currency qualifies for is determined based on the currency group criteria set out in subsection 5461(1).

(3) The spot risk margin surcharge rate that may be in effect from time to time for a particular country currency is determined using the approach set out in subsection 5462(2).

(4) *Dealer Members* are permitted at their option to margin certain inventory positions in accordance with section 5467 instead of the other applicable provisions within sections 5461 through 5466.

(5) References to conversion to Canadian dollars at the *spot exchange rate* are to the rate quoted by a recognized quote vendor for contracts with a *term to maturity* of one day.

(6) *Monetary assets and liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.

(7) Inventory long or short currency *futures contracts* listed on a futures exchange which are included in the unhedged foreign exchange calculations hereunder are not required to be margined pursuant to section 5790.

(8) *Dealer Members* are permitted at their option to exclude non-allowable *monetary assets* from *monetary assets* for the purpose of calculating the margin requirement within sections 5461 through 5467.

(9) The *foreign exchange position term to maturity* is the term to maturity of a particular *foreign exchange position* expressed in years.

5461. Foreign exchange currency group criteria and monitoring

(1) **Criteria -** The qualitative and quantitative criteria for initial qualification within each currency group are as follows:

(i) A Group 1 currency must:

(a) have a spot price volatility level of less than or equal to 1.00%, and

(b) be a primary intervention currency of the Canadian dollar.

(ii) A Group 2 currency must:

(a) have a spot price volatility level of less than or equal to 3.00%,

(b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and

(c) have either:

(I) a daily quoted spot rate by either:

(A) a member of the Economic and Monetary Union, or

(B) a participant in the Exchange Rate Mechanism II,

or

(II) a listed currency *futures contract* on a futures exchange.

(iii) A Group 3 currency must:

(a) have a spot price volatility level of less than or equal to 10.00%,

(b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and

(c) be of a member country of the International Monetary Fund with Article VIII status, and no capital payment restrictions as they relate to security transactions.

(iv) A Group 4 currency has no initial or ongoing qualification criteria.

(2) **Monitoring currency adherence to group qualitative criteria -**

On at least an annual basis, ~~*IIROC*~~the *Corporation* shall assess the adherence of each currency in a group to the qualitative criteria of the particular currency group to determine whether the currency continues to satisfy the qualitative criteria of the currency group.

(3) **Currency group upgrades and downgrades** ~~-~~ – Where ~~*IIROC*~~the *Corporation* determines that a particular currency:

(i) should be upgraded, because it now satisfies the criteria set out in subsection 5461(1) for a currency group other than its current currency group, or

(ii) should be downgraded, because it no longer satisfies its current currency group criteria as set out in subsection 5461(1),

~~*IIROC*~~The *Corporation* shall recommend for approval its proposed upgrade or downgrade to the ~~IIROC~~*Corporation's* Financial and Operations Advisory Section. Upon ~~IIROC~~the *Corporation's* Financial and Operations Advisory Section approval, ~~*IIROC*~~the *Corporation* shall notify *Dealer Members* of the upgrade or downgrade.

5462. Spot risk margin rate

(1) **Minimum rates** - The minimum spot risk margin rates for each Currency Group are as follows:

	Minimum spot risk margin required as a percentage of market value of the foreign exchange position			
	Currency Group			
	1	2	3	4

Minimum spot risk margin rate	1.00%	3.00%	10.00%	25.00%

(2) **Spot price volatility levels** - To monitor the volatility of each Group 1, 2 or 3 currency, the Canadian dollar equivalent closing price on each of the four trading days succeeding the "base day" is compared to the base day closing price. The first of four succeeding trading days on which the percentage change in price (negative or positive) between the closing price on the succeeding day and the closing price on the base day is greater than the spot risk margin rate prescribed for the particular currency in subsection 5460(1) is designated an "offside base day". If an offside base day has been designated, the offside base day is designated the base day for the purpose of making further base day closing price comparisons.

If the number of offside base days during any 60 trading day period is greater than three, the currency is deemed to have exceeded the volatility threshold of the currency group.

If the volatility of a Group 1, 2 or 3 currency exceeds the volatility threshold, the individual currency spot risk margin rate is increased by increments of 10% until the application of the increased margin rate would result in no more than two offside days during the preceding 60 trading days. The increased margin rate shall apply for a minimum of 30 trading days and is automatically decreased to the margin rate otherwise applicable when after such 30 trading day period the volatility of the currency is less than the volatility threshold.

~~*IIROC*~~The *Corporation* is responsible for determining the required increase or decrease in foreign exchange spot risk margin rates under this subsection 5462(2).

5463. Spot risk margin requirement

(1) The spot risk margin requirement applies to all *monetary assets and liabilities*, regardless of *term to maturity*, and must be calculated as:

net long (short) foreign exchange position x spot risk margin rate

(2) The spot risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

5464. Term risk margin requirement

(1) The term risk margin requirement applies to all *monetary assets or liabilities* with a *term to maturity* of over two *business days* and must be calculated for each individual asset and liability as:

foreign exchange position x term risk margin rate for the position

(2) The term risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

5465. Maximum security margin requirement

(1) The sum of:

(i) the spot risk margin requirement,

(ii) the term risk margin requirement, and

(iii) the security margin requirement as determined elsewhere in these Rules,

must not exceed 100% of the *market value* of the security.

5466. Foreign exchange position offsets for Dealer Members

(1) A *Dealer Member* must calculate *Dealer Member inventory margin* and *client margin* for *foreign exchange positions* according to the currency groups and rates in subsection 5460(1).

(2) If a *Dealer Member* has a *monetary asset* and *monetary liability* in the same currency, the term risk margin requirement may be netted according to the following table:

Dealer Member position	**Term risk margin requirement**
(i) *Monetary asset* and *monetary liability*, both with a *term to maturity* of 2 years or less	Term risk margin requirement for both positions may be netted
(ii) *Monetary asset* and *monetary liability*, both with a *term to maturity* of over 2 years	Term risk margin requirement for both positions is the greater of term risk margin requirement for the *monetary asset* and the *monetary liability*.
(iii) *Monetary asset* (*monetary liability*) with a *term to maturity* of 2 years or less and *monetary liability* (*monetary asset*) with a *term to maturity* of over 2 years where difference in the terms to maturity is 180 days or less.	Term risk margin requirement for both positions may be netted

(3) If a *Dealer Member* has a *monetary asset* and a *monetary liability* in the same currency group and one of the positions has a *term to maturity* of 2 years or less and the other has a *term to maturity* of more than 2 years, the term risk margin requirement for the two positions need not be greater than the following:

Currency Group			
1	2	3	4
Market value of positions offset x 5.00%	*Market value* of positions offset x 10.00%	*Market value* of positions offset x 20.00%	*Market value* of positions offset x 50.00%

5467. Alternative calculation approach for Dealer Member foreign exchange positions

(1) As an alternative to the foreign exchange margin requirement determined under sections 5463 through 5466 for futures and forward contract inventory positions denominated in a currency which has a currency *futures contract* which trades on a futures exchange, the foreign exchange margin requirement may be calculated as follows.

(i) **Futures contracts -** *Foreign exchange positions* consisting of *futures contracts* may be margined at the margin rates prescribed by the futures exchange on which the *futures contracts* are listed.

(ii) **Forward contracts offsets** - Forward contract positions which are not denominated in Canadian dollars may be margined as follows:

(a) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,

(b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of sub-clause 5467(1)(ii)(b).

(iii) **Futures and forward contract offsets** - Futures and forward contract positions which are not denominated in Canadian dollars may be margined as follows:

(a) (I) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,

(II) margin rates applicable to unhedged positions under paragraph 5467(1)(iii)(a)(I) are the rates established by sections 5461 through 5466 and not the rates prescribed by the futures exchange on which the *futures contracts* are listed,

(b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of sub-clause 5467(1)(iii)(b).

5468. Client account margin requirements

(1) The minimum *client account margin* requirements for *foreign exchange positions* are the aggregate of the spot risk margin requirement and term risk margin requirement calculated for each position provided that:

(i) Where the positions are held in an account of:

(a) an *acceptable institution*, no margin is required, or

(b) an *acceptable counterparty* or a *regulated entity*, margin is calculated on a mark-to-market basis.

(ii) The margin required in respect of *foreign exchange positions* (excluding cash balances) held in the accounts of clients who are classified as other counterparties, as defined in Form 1, which are denominated in a currency other than the currency of the account, is the aggregate of the security margin requirement and the foreign exchange margin requirement, provided that where the margin rate applicable to the security is greater than the spot risk margin rate, the foreign exchange margin requirement is nil. The sum of the security margin requirement and the foreign exchange margin requirement shall not exceed 100%.

(iii) Listed *futures contracts* are margined in the same manner as prescribed in section 5790.

5469. Foreign exchange concentration charge

(1) In respect of any Group 2, Group 3 or Group 4 currency, a concentration charge as calculated in subsection 5469(2) may apply.

(2) The concentration charge that applies for any Group 2, Group 3 or Group 4 currency, is any excess of the aggregate of the foreign exchange margin provided under sections 5461 through

5468 on a *Dealer Member's monetary assets* and *monetary liabilities* and the foreign exchange margin on client accounts over 25% of the firm's net allowable assets net of minimum capital (as determined for the purposes of Form 1) as determined on a currency by currency basis.

5470. – 5499. Reserved.

RULE 5500 | MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS AND WHEN ISSUED TRADING

5501. Introduction

(1) Rule 5500 covers *Dealer Member inventory margin* requirements for underwriting *commitments* and offsets involving underwriting *commitments* and *Dealer Member inventory margin* and *client account margin* requirements for when issued trading positions. The order of subjects in Rule 5500 is:

(i) underwriting *commitment* amount [section 5510]

(ii) margin requirements for underwriting *commitments*:

(a) where a *new issue letter* has not been obtained [section 5520],

(b) where a *new issue letter* has been obtained [section 5521],

(c) where expressions of interest from *exempt purchasers* have been received [section 5522],

(d) alternative approach to margining private placements of restricted *equity securities* [section 5523],

(e) standby commitment to purchase securities under a rights offering [section 5524],

(iii) underwriting related agreements [section 5530],

(iv) individual and overall underwriting concentration charges [sections 5540 and 5541],

(v) specific offset strategies involving *commitments* to purchase [sections 5550 through 5552],and

(vi) margin requirements for when issued trading positions [sections 5560 through 5562].

5502. - 5509. Reserved.

UNDERWRITING COMMITMENT AMOUNT

5510. Underwriting commitment amount

(1) In determining the amount of a *Dealer Member's* underwriting *commitment* for the purposes of sections 5520 through 5524, sections 5530 and 5531 and sections 5540 and 5541, receivables from *Dealer Members* of the banking or selling groups in respect of firm obligations to take down a portion of a new issue of securities (that is not after market trading) may be deducted from the liability of the *Dealer Member* to the issuer.

5511. - 5519. Reserved.

MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS

5520. Margin requirements for underwriting commitments where a new issue letter has not been obtained

(1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has not been obtained is calculated in accordance with subsections 5520(2) through 5520(5).

(2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:

(i) from the *commitment* date to 20 *business days* after settlement date, *normal new issue margin*,

(ii) thereafter, *normal margin*.

(3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *disaster out clause*, whichever is earlier, 50% of *normal new issue margin*, and

(ii) thereafter, the same as in subsection 5520(2).

(4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and

(ii) thereafter, the same as in subsection 5520(2).

(5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and

(ii) thereafter:

(a) where the *disaster out clause* is still in effect, the same as in subsection 5520(3), or

(b) where the *disaster out clause* is also no longer effect, the same as in subsection 5520(2).

5521. Margin requirements for underwriting commitments where a new issue letter has been obtained

(1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has been obtained is calculated in accordance with subsections 5521(2) through 5521(6).

(2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* has not expired, 10% of *normal new issue margin*, and

(b) where the *new issue letter* has expired, *normal new issue margin*,

(ii) from settlement date of the offering:

(a) where the *new issue letter* has been drawn:

(I) from settlement date to five *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 10% of *normal new issue margin*,

(II) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 25% of *normal new issue margin*,

(III) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 50% of *normal new issue margin*,

(IV) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 75% of *normal new issue margin*, and

(V) thereafter, *normal margin*, and

(b) where the *new issue letter* has not been drawn:

(I) from settlement date to 20 *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 100% of *normal new issue margin*, and

(II) thereafter, *normal margin*.

(3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* has not expired, 10% of *normal new issue margin*,

(b) where the *disaster out clause* has not expired, 50% of *normal new issue margin*, and

(c) where the *new issue letter* and the *disaster out clause* have expired, *normal new issue margin*,

(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,

(b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,

(c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*, and

(d) where both the *new issue letter* and the *market out clause* have expired, *normal new issue margin*,

(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,

(b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,

(c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*,

(d) where both the *new issue letter* and the *market out clause* have expired and the *disaster out clause* has not expired, 50% of *normal new issue margin*, and

(e) where the *new issue letter*, the *market out clause* and the *disaster out clause* have all expired, *normal new issue margin*,

(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(6) If the margin rates prescribed in subsections 5521(2) through 5521(5)in respect of *commitments* for which a *new issue letter* is available are less than the margin rates required by the issuer of such letter, the higher rates required by the issuer shall be applied.

5522. Margin requirements for underwriting commitments where expressions of interest from exempt purchasers have been affirmed

(1) Where a *Dealer Member* has a *commitment* in respect of a new issue of securities or a secondary issue of securities and the *Dealer Member* has determined through obtaining *appropriate documentation*:

(i) that the allocation between retail and *exempt purchasers* has been finalized,

(ii) that expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed,

(iii) that there is unlikely to be a significant renege rate on the expressions of interest received from *exempt purchasers*, and

(iv) that the *Dealer Member* is not significantly leveraging its underwriting activities through the use of the margin requirement reduction provided on that portion of the *commitment* where expressions of interest have been received from *exempt purchasers*,

the minimum *Dealer Member inventory margin* requirement for the portion of the *commitment* allocated to *exempt purchasers* is calculated in accordance with subsections 5522(2) through 5522(6).

(2) **New issue letter has not been obtained and no out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement) and a *new issue letter* has not been obtained or has expired, the margin required from the date that the expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed until the date the sales are contracted is:

(i) where the current *market value* of the *commitment* is at or above 90% of new issue value (90% x issue price x number of shares), 20% of *normal new issue margin*,

(ii) where the current *market value* of the *commitment* is at or above 80% but below 90% of new issue value (80% x issue price x number of shares), 40% of *normal new issue margin*, and

(iii) otherwise, *normal new issue margin*.

(3) **New issue letter has not been obtained and disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by reference in the *commitment* to such clause being included in the underwriting agreement) and the *disaster out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the lesser of:

(i) the margin required in subsection 5522(2), and

(ii) the margin required in subsection 5520(3).

(4) **New issue letter has not been obtained and market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(4).

(5) **New issue letter has not been obtained and disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(5).

(6) **New issue letter has been obtained** - Where a *new issue letter* has been obtained and the *new issue letter* has not expired, the margin required is the same as in section 5521.

5523. Alternative approach to margining of private placements of restricted equity securities during the distribution period

(1) For a private placement of an *equity security* subject to a four-month trading restriction (pursuant to National Instrument 45-102 or a similar provincial *securities laws* exemption), an alternative approach to margining is permitted. The alternative approach is set out in subsection 5523(2).

(2) The margin rate to be used for the private placement during the distribution period shall be the greater of:

(i) the margin rate that would be otherwise applicable to the security if the restriction were not present, subject to the margin rate reductions available in sections 5520 through 5522, and

(ii) (a) where it is five *business days* or less subsequent to the *commitment* date, 25%,

(b) where it is greater than five *business days* subsequent to the *commitment* date, 50%, and

(c) where it is on or after the offering settlement date, 100%.

5524. Margin requirements for a standby commitment to purchase securities under a rights offering

(1) The minimum *Dealer Member inventory margin* requirement for a standby commitment to purchase securities under a rights offering is calculated in accordance with subsection 5524(2).

(2) The margin required is:

(i) where the *market value* of the *underlying security* is greater than 125% of the subscription amount, nil,

(ii) where the *market value* of the *underlying security* is greater than 110% but less than or equal to 125% of the subscription amount, 10% of the *normal margin* rate multiplied by the subscription amount,

(iii) where the *market value* of the *underlying security* is greater than 105% but less than or equal to 110% of the subscription amount, 30% of the *normal margin* rate multiplied by the subscription amount,

(iv) where the *market value* of the *underlying security* is greater than 100% but less than or equal to 105% of the subscription amount, 50% of the *normal margin* rate multiplied by the subscription amount, and

(v) where the *market value* of the *underlying security* is less than or equal to 100% of the subscription amount, the *normal margin* rate multiplied by the *market value* of the *underlying security*.

5525. - 5529. Reserved.

UNDERWRITING RELATED AGREEMENTS

5530. New issue letter

(1) To obtain the reduced margin requirements in section 5521 for an underwriting *commitment*, a *Dealer Member* must be party to a *new issue letter.*

(2) In subsection 5130(5), a *new issue letter* is defined as an underwriting loan facility in a form satisfactory to ~~*IIROC*~~the *Corporation*. For the letter to be satisfactory, it must contain the following minimum terms and conditions:

(i) the letter issuer must provide an irrevocable commitment to advance funds based only on the strength of the new issue and the *Dealer Member*,

(ii) the letter issuer must advance funds to the *Dealer Member* for any part of the *commitment* not sold, for an amount based on a stated *loan value* rate, at a stated interest rate, and for a stated period of time,

(iii) the letter issuer must not, if the *Dealer Member* is unable to repay the loan at the termination date resulting in a loss or potential loss to the letter issuer, have or seek any right of set-off against:

(a) collateral held by the letter issuer for any other obligations of the *Dealer Member* or its clients,

(b) cash on deposit with the letter issuer for any purpose, or

(c) securities or other assets held in a custodial capacity by the letter issuer for the *Dealer Member's* own account or for the *Dealer Member's* clients,

to recover the loss or potential loss.

(3) If the *new issue letter* issuer is not an *acceptable institution*, the funds that can be drawn under the *new issue letter* must either be fully collateralized by high-grade securities or held in escrow with an *acceptable institution*.

5531. - 5539. Reserved.

INDIVIDUAL AND OVERALL UNDERWRITING CONCENTRATION CHARGES

5540. Individual underwriting concentration charge

(1) Where:

(i) the margin required on any one *commitment* is reduced due to either:

(a) obtaining a *new issue letter* in accordance with section 5521, or

(b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,

and

(ii) the margin requirement reduction in respect of such *commitment* (determined by comparing the margin requirement calculated in section 5521 or section 5522 with the margin requirement otherwise applicable and calculated in section 5520), exceeds 40% of such *Dealer Member's* net allowable assets,

such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 or section 5522 on the individual underwriting position to which such excess relates.

5541. Overall underwriting concentration charge

(1) Where:

(i) the margin required on some or all *commitments* is reduced due to either:

(a) obtaining a *new issue letter* in accordance with section 5521, or

(b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,

and

(ii) the aggregate margin requirement reductions in respect of such *commitments* (determined by comparing the margin requirements calculated in section 5521 and section 5522 with the margin requirements otherwise applicable and calculated in section 5520), exceeds 100% of such *Dealer Member's* net allowable assets,

such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 and section 5522 above on individual underwriting positions and by the amount required to be deducted from *risk adjusted capital* pursuant to section 5540.

5542. - 5549. Reserved.

SPECIFIC OFFSET STRATEGIES INVOLVING COMMITMENTS TO PURCHASE

5550. Long qualifying basket of index securities - Short index participation units - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		Short position		Commitment
(i)	*qualifying basket of index securities*	and	*index participation units* based on the same *index*	and	*commitment* to purchase *index participation units*

					pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5550(2).

(2) No margin is required provided the long *qualifying basket of index securities*:

(i) is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units,

and

(ii) does not exceed the *Dealer Member's commitment* to purchase the participation units.

5551. Long qualifying basket of index securities - Short index participation unit call options - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		Short option position		Commitment
(i)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*	and	*commitment* to purchase *index participation units* pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the short *call options*, the minimum margin required for the combination is calculated in accordance with subsection 5551(2).

(2) Subject to additional margin requirements set out in subsection 5551(3), the minimum margin required is the *normal margin required* on the long qualifying basket less the *market value* of the short *call options*, but in no event shall the margin required be less than zero.

(3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5552. Long qualifying basket of index securities - Long index participation unit put options - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		Long option position		Commitment
(i)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*	and	*commitment* to purchase *index participation units* pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the long *put options*, the minimum margin required for the combination is calculated in accordance with subsection 5552(2).

(2) Subject to additional margin requirements set out in subsection 5552(3), the minimum margin required is:

(i) 100% of the *market value* of the long *put options*,

plus

(ii) the lesser of:

(a) the *normal margin required* on the long *qualifying basket of index securities*,

or

(b) the *market value* of the *qualifying basket of index securities* less the *aggregate exercise value* of the *put options*.

A negative value calculated under sub-clause 5552(2)(ii)(b) may reduce the margin required on the *put options*, but in no event shall the margin required be less than zero.

(3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5553. - 5559. Reserved.

MARGIN REQUIREMENTS FOR WHEN ISSUED TRADING POSITIONS

5560. Margin for short positions

(1) Subject to subsections 5560(2) and 5560(3), the minimum *Dealer Member inventory margin* and *client account margin* required for short positions resulting from short sales of a security traded on a when issued basis is the *normal margin required* for a short position in the security.

(2) *Dealer Member inventory margin* shall be posted on the trade date of the short sale.

(3) *Client account margin* shall be posted on the second settlement day after the trade date of the short sale.

5561. Margin for hedged positions

(1) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold on a when issued basis is the *normal margin required* for a long position in the security.

(2) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold for settlement into the regular market is the *normal margin required* for a short position in the security.

(3) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.

(4) *Client account margin* shall be posted on the second settlement day after the trade date of the sale.

5562. Margin for long positions

(1) Subject to subsections 5562(2) and 5562(3), the minimum *Dealer Member inventory margin* and *client account margin* required for long positions resulting from purchases of securities *trading on a when issued basis* that have not been sold subsequently on a when issued basis is the *normal margin required* for a long position in the security.

(2) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.

(3) *Client account margin* shall be posted on the later of the second settlement day after the trade date of the purchase and the date of the issuance or distribution of the security.

5563. - 5599. Reserved.

RULE 5600 | MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DEBT AND EQUITY SECURITIES AND RELATED INSTRUMENTS

5601. Introduction

(1) Rule 5600 addresses the margin treatment of security positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies.

(2) The order of subjects in Rule 5600 is:

(i) *Dealer Member* inventory and client account offset strategies involving:

(a) *debt securities*:

(I) government *debt securities* [sections 5610 through 5618],

(II) commercial and corporate *debt securities* [sections 5620 through 5624], and

(III) government *debt securities* and commercial and corporate *debt securities* [sections 5630 through 5631],

(b) convertible and *exercisable securities:*

(I) *convertible securities* [sections 5640 through 5644],

(II) *capital shares* [sections 5650 to 5655], and

(III) warrants, rights, *installment receipts* and other *exercisable securities* [sections 5660 through 5663],

and

(ii) offsets only available for *Dealer Member* inventory positions:

(a) *debt securities* [sections 5670 through 5671], and

(b) swap positions [section 5680 through 5682].

5602. - 5609. Reserved.

DEALER MEMBER INVENTORY AND CLIENT ACCOUNT OFFSET STRATEGIES

OFFSETS INVOLVING GOVERNMENT DEBT SECURITIES AND RELATED INSTRUMENTS

5610. Summary reference tables

(1) The following reference table summarizes the reduced margin offset strategies available among government *debt securities*:

	Short Canada debt securities	Short United States debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities
Long Canada debt securities	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(3)(i)	same *maturity band* - 5614(1)(i)	same *maturity band* - 5614(1)(ii) and 5614(3)(iii)
	different *maturity bands* - 5613(1)(i)	different *maturity bands* - no offset available	different *maturity bands* - 5613(1)(ii)	different *maturity bands* - no offset available
Long United States debt securities	same *maturity band* - 5614(3)(i)	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(3)(ii)	same *maturity band* - 5614(3)(iv)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canada Provincial debt securities	same *maturity band* - 5614(1)(i)	same *maturity band* - 5614(3)(ii)	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(1)(iii) and 5614(3)(v)
	different *maturity bands* - 5613(1)(ii)	different *maturity bands* - no offset available	different *maturity bands* - 5613(1)(iii)	different *maturity bands* - no offset available
Long Canada Municipal debt securities	same *maturity band* - 5614(1)(ii) and 5614(3)(iii)	same *maturity band* - 5614(3)(iv)	same *maturity band* - 5614(1)(iii) and 5614(3)(v)	same *maturity band* - offset available for long and short positions in same security
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available

(2) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities* and strip and residual debt instruments:

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada strips or Canada residuals	Short Provincial strips or Provincial residuals
Long Canada debt securities	**Refer to table in subsection 5610(1)**		same issuer and *maturity band* - 5615(1)(i) and 5615(1)(ii)	same *maturity band* - 5615(2)(i) and 5615(2)(ii)
			different issuers or *maturity bands* - no offset available	different *maturity bands* - no offset available

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada strips or Canada residuals	Short Provincial strips or Provincial residuals
Long Canada Provincial debt securities			same *maturity band* - 5615(2)(iii) and 5615(2)(iv)	same *maturity band* - 5615(1)(v) and 5615(1)(vi)
			different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canada strips or Canada residuals	same *maturity band* - 5615(1)(i) and 5615(1)(ii)	same *maturity band* - 5615(2)(iii) and 5615(2)(iv)	same *maturity band* - 5615(3)(i) through 5615(3)(iii)	same *maturity band* - 5615(4)(i) through 5615(4)(iv)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Provincial strips or Provincial residuals	same *maturity band* - 5615(2)(i) and 5615(2)(ii)	same *maturity band* - 5615(1)(v) and 5615(1)(vi)	same *maturity band* - 5615(4)(i) through 5615(4)(iv)	same *maturity band* - 5615(3)(iv) through 5615(3)(vi)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available

(3) The following reference table summarizes the reduced margin offset strategies available between foreign federal government *debt securities* and foreign federal government strip and residual debt instruments:

	Short foreign federal government debt securities	Short foreign federal government strips or foreign federal government residuals
Long foreign federal government debt securities		same issuer and *maturity band* - 5615(1)(iii) and 5615(1)(iv)
Short foreign federal government strips or foreign federal government residuals	same issuer and *maturity band* - 5615(1)(iii) and 5615(1)(iv)	same issuer and *maturity band* - offset available for long and short positions in same security

(4) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities* and Canadian government guaranteed mortgage-backed securities:

	Short Canada debt securities	**Short Canada mortgage-backed securities**
Long Canada debt securities		same *maturity band* - 5616(1)(i)
Long Canada mortgage-backed securities	same *maturity band* - 5616(1)(i)	same *maturity band* - offset available for long and short positions in same security

(5) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and government debt *futures contracts*:

	Short Canada debt securities	**Short Canada Provincial debt securities**	**Short Canada Municipal debt securities**	**Short Canada bond futures**
Long Canada debt securities				same *maturity band* - 5617(1)(i)
				different *maturity bands* - 5618(1)(i)
Long Canada Provincial debt securities				same *maturity band* - 5618(1)(ii)
				different *maturity bands* - 5618(1)(ii)
Long Canada Municipal debt securities				same *maturity band* - 5618(1)(iii)

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities	Short Canada bond futures
Long Canada bond futures	same *maturity band* - 5617(1)(i)	same *maturity band* - 5618(1)(ii)	same *maturity band* - 5618(1)(iii)	same *maturity band* - • same contract - margin computed on the net long or net short contract position • different contracts - refer to requirements on exchange on which the contract trades
	• different *maturity bands* - 5618(1)(i)	different *maturity bands* - 5618(1)(ii)		different *maturity bands* - refer to requirements on exchange on which the contract trades

5611. Government debt securities of same issuer and both maturing within one year

(1) Where a *Dealer Member* or a client:

(i) has a long position in *Canada debt securities*, *United States debt securities*, *Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing within one year, and

(ii) has a short position in *debt securities*:

(a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),

(b) in the same currency as the securities referred to in clause 5611(1)(i),

(c) maturing within one year, and

(d) with a *market value* equal to the securities referred to in clause 5611(1)(i),

the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

5612. Government debt securities of same issuer with same maturity band and both maturing in greater than or equal to one year

(1) Where a *Dealer Member* or a client:

(i) has a long position in *Canada debt securities*, *United States debt securities*, *Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing in greater than or equal to one year, and

(ii) has a short position in *debt securities*:

(a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),

(b) and in the same currency as the securities referred to in clause 5612(1)(i),

(c) maturing within the same *maturity band* as the securities referred to in clause 5612(1)(i), and

(d) with a *market value* equal to the securities referred to in clause 5612(1)(i),

the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

5613. Government debt securities with different maturity bands

(1) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada debt securities*
(ii)	*Canada debt securities*	and	*Canada Provincial debt securities*
(iii)	*Canada Provincial debt securities*	and	*Canada Provincial debt securities*

and the positions have the same currency denomination and *market value* but are within different *maturity bands*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

5614. Government debt securities of different issuers with same maturity band

(1) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada Provincial debt securities*
(ii)	*Canada debt securities*	and	highly rated *Canada Municipal debt securities* with a high issuer credit rating

(iii) *Canada Provincial debt securities* and highly rated *Canada Municipal debt securities* with a high issuer credit rating

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5614(1) will be repealed and replaced with the following:**~~

~~Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:~~

	~~**Long (short) position**~~		~~**Short (long) position**~~
~~(i)~~	~~*Canada debt securities*~~	~~and~~	~~*Canada Provincial debt securities*~~
~~(ii)~~	~~*Canada debt securities*~~	~~and~~	~~*Canada Municipal debt securities* with a high issuer credit rating~~
~~(iii)~~	~~*Canada Provincial debt securities*~~	~~and~~	~~*Canada Municipal debt securities* with a high issuer credit rating~~

~~and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.~~

(2) In subsection 5614(1) "~~highly rated~~ *Canada Municipal debt securities with a high issuer credit rating*" are ~~*Canada Municipal*~~ *debt securities* ~~currently rated~~issued or guaranteed by a Canadian municipal government with a long-term issuer credit rating of "A" or higher by ~~DBRS, Moody's or S&P Corporation~~a *designated rating organization*.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5614(2) will be repealed and replaced with the following:**~~

~~In subsection 5614(1) "*Canada Municipal debt securities with a high issuer credit rating*" are *debt securities* issued or guaranteed by a Canadian municipal government with a long-term issuer credit rating of "A" or higher by a *designated rating organization*.~~

(3) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*United States debt securities*
(ii)	*United States debt securities*	and	*Canada Provincial debt securities*
(iii)	*Canada debt securities*	and	*Canada Municipal debt securities*
(iv)	*United States debt securities*	and	*Canada Municipal debt securities*
(v)	*Canada Provincial debt securities*	and	*Canada Municipal debt securities*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both

positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

5615. Offsets involving government debt securities and strip coupons or residuals

(1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) government strip coupon or residual position pairings:

	Long (short) position		Short (long) position
(i)	*Canada debt securities*	and	*Canada strips*
(ii)	*Canada debt securities*	and	*Canada residuals*
(iii)	Federal government *debt securities* eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government strips
(iv)	Federal government *debt securities* eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government residuals
(v)	*Canada Provincial debt securities*	and	*Canada Provincial strips*
(vi)	*Canada Provincial debt securities*	and	*Canada Provincial residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the strip coupon or residual position over the *normal margin required* on the *debt security* position.

(2) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) government strip coupon or government residual position pairings:

	Long (short) position		Short (long) position
(i)	*Canada debt securities*	and	*Canada Provincial strips*
(ii)	*Canada debt securities*	and	*Canada Provincial residuals*
(iii)	*Canada Provincial debt securities*	and	*Canada strips*
(iv)	*Canada Provincial debt securities*	and	*Canada residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the total *normal margin required* for both positions.

(3) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

	Long (short) position		Short (long) position
(i)	*Canada strips*	and	*Canada strips*
(ii)	*Canada residuals*	and	*Canada residuals*
(iii)	*Canada strips*	and	*Canada residuals*
(iv)	*Canada Provincial strips*	and	*Canada Provincial strips*

(v)	*Canada Provincial residuals*	and	*Canada Provincial residuals*
(vi)	*Canada Provincial strips*	and	*Canada Provincial residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

(4) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada strips*	and	*Canada Provincial strips*
(ii)	*Canada strips*	and	*Canada Provincial residuals*
(iii)	*Canada residuals*	and	*Canada Provincial strips*
(iv)	*Canada residuals*	and	*Canada Provincial residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the total *normal margin required* for both positions.

5616. Offsets involving government debt securities and government guaranteed mortgage-backed securities

(1) Subject to subsection 5616(2), where a *Dealer Member* or a client has the following pairing:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	Canada guaranteed mortgage-backed securities

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the mortgage-backed security position over the *normal margin required* on the *debt security* position.

(2) Where:

(i) the *market value* of the mortgage-backed securities position equals or exceeds the remaining principal amount of such position, and

(ii) the mortgages underlying the mortgage-backed securities position are subject to being repaid with or without penalty in full at the option of the mortgagee prior to maturity,

the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the *normal margin required* on the mortgage-backed security position and the *normal margin required* on the *debt security* position.

5617. Offsets involving government debt securities and Government of Canada notional bond futures contracts with same underlying issuer and same maturity bands

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	*Canada debt securities*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

5618. Other offsets involving government debt securities and Government of Canada notional bond futures contracts

(1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	Long (short) position		Short (long) position
(i)	*Canada debt securities* in different *maturity band*	and	Government of Canada notional bond *futures contract*
(ii)	*Canada Provincial debt securities* in same or different *maturity band*	and	Government of Canada notional bond *futures contract*
(iii)	~~highly rated~~ *Canada Municipal debt securities* with a high issuer credit rating in same *maturity band*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5618(1) will be repealed and replaced with the following:**~~

~~Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:~~

	~~**Long (short) position**~~		~~**Short (long) position**~~
~~(i)~~	~~*Canada debt securities* in different *maturity band*~~	~~and~~	~~Government of Canada notional bond *futures contract*~~
~~(ii)~~	~~*Canada Provincial debt securities* in same or different *maturity band*~~	~~and~~	~~Government of Canada notional bond *futures contract*~~
~~(iii)~~	~~*Canada Municipal debt securities* with a high issuer credit rating in same *maturity band*~~	~~and~~	~~Government of Canada notional bond *futures contract*~~

~~and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.~~

(2) In subsection 5618(1) "~~highly rated~~ *Canada Municipal debt securities* with a high issuer credit rating" are ~~*Canada Municipal*~~ *debt securities* ~~currently rated~~issued or guaranteed by a Canadian

municipal government with a long-term issuer credit rating of "A" or higher by ~~DBRS, Moody's or S&P Corporation~~a *designated rating organization*.

> ~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5618(2) will be repealed and replaced with the following:**~~
>
> ~~In subsection 5618(1) "*Canada Municipal debt securities* with a high issuer credit rating" are *debt securities* issued or guaranteed by a Canadian municipal government with a long-term issuer credit rating of "A" or higher by a *designated rating organization*.~~

5619. Reserved.

OFFSETS INVOLVING COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS

5620. Summary reference tables

(1) The following reference table summarizes the reduced margin offset strategies available among commercial and corporate *debt securities*:

	Short commercial and corporate debt securities	**Short Canadian chartered bank acceptances**	**Short Canadian bankers acceptance futures contracts**
Long commercial and corporate debt securities	same *maturity band* - offset available for securities of same issuer - 5621(1)(i)		
Long Canadian chartered bank acceptances		same *maturity band* - offset available for same security only	same *maturity band* - 5622(1)(i)
Long Canadian bankers acceptance futures contracts		same *maturity band* - 5622(1)(i)	same *maturity band* - • same contract - margin computed on the net long or net short contract position • different contracts - refer to requirements on exchange on which the contract trades
			different *maturity bands* - refer to requirements on exchange on which the contract trades

(2) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt securities* and strip and residual debt instruments:

	Short commercial and corporate debt	**Short commercial and corporate debt strips or residuals**
Long commercial and corporate debt		same *maturity band* - offset available where strip or residual is of the same issuer - 5623(1)(i)
Long commercial and corporate debt strips or residuals	same *maturity band* - offset available where strip or residual is of the same issuer - 5623(1)(i)	same *maturity band* - offset available for long and short positions in same strip or same residual

(3) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt securities* and government debt *futures contracts*:

	Short commercial and corporate debt	**Short Canada bond futures**
Long commercial and corporate debt		same *maturity band* - 5624(1)(i)
Long Canada bond futures	same *maturity band* - 5624(1)(i)	

5621. Commercial and corporate debt securities of same issuer with same maturity band

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		**Short (long) position**
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	highly rated non-convertible commercial and corporate *debt securities* of the same issuer

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5621(1) *"*highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by ~~DBRS, Moody's or S&P Corporation~~*a designated rating organization*.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5621(2) will be repealed and replaced with the following:**~~

~~In subsection 5621(1) *"highly rated non-convertible commercial and corporate debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by a *designated rating organization.*~~

5622. Offsets involving Canadian chartered bank acceptances and Canadian bankers acceptance futures contracts with same maturity bands

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	highly rated *chartered bank* acceptances	and	*Canadian banker acceptance futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

(2) In subsection 5622(1) *"*highly rated *chartered bank* acceptances*"* are bank acceptances currently rated "A" or higher by ~~DBRS, Moody's or S&P Corporation~~a *designated rating organization*.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5622(2) will be repealed and replaced with the following:**~~

~~In subsection 5622(1) *"highly rated chartered bank acceptances"* are bank acceptances currently rated "A" or higher by a *designated rating organization.*~~

5623. Offsets involving commercial and corporate debt securities and strip coupons or residuals

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	strips or residuals whose underlier is highly rated non-convertible commercial and corporate *debt securities* of the same issuer

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions, subject to a maximum margin rate requirement of 20%.

(2) In subsection 5623(1) *"*highly rated non-convertible commercial and corporate *debt securities*" are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by ~~DBRS, Moody's or S&P Corporation~~a *designated rating organization*.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5623(2) will be repealed and replaced with the following:**~~

~~In subsection 5623(1) *"highly rated non-convertible commercial and corporate debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by a *designated rating organization.*~~

5624. Offsets involving commercial and corporate debt securities and Government of Canada notional bond futures contracts

(1) Where a *Dealer Member* or a client has one of the following long (short) commercial and corporate *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	Long (short) position		**Short (long) position**
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5624(1) *"*highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by ~~DBRS, Moody's or S&P Corporation~~*a designated rating organization*.

> ~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5624(2) will be repealed and replaced with the following:**~~
>
> ~~In subsection 5624(1) *"*highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by a *designated rating organization.*~~

5625. - 5629. Reserved.

OFFSETS INVOLVING GOVERNMENT AND COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS

5630. Summary reference table

(1) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and commercial and corporate *debt securities*:

	Short Canada debt securities	**Short United States treasury debt securities**	**Short Canada Provincial debt securities**	**Short commercial and corporate debt securities**
Long Canada debt securities				same *maturity band* - 5631(1)(i)
Long United States treasury debt securities				same *maturity band* - 5631(1)(ii)

	Short Canada debt securities	Short United States treasury debt securities	Short Canada Provincial debt securities	Short commercial and corporate debt securities
Long *Canada* Provincial debt securities				same *maturity band* - 5631(1)(iii)
Long commercial and corporate debt securities	same *maturity band* - 5631(1)(i)	same *maturity band* - 5631(1)(ii)	same *maturity band* - 5631(1)(iii)	

5631. Government and commercial corporate debt securities with same maturity band

(1) Where a *Dealer Member* or a client has one of the following long (short) government and short (long) commercial and corporate *debt security* position pairings:

	Long (short) position		Short (long) position
(i)	*Canada debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*
(ii)	United States treasury *debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*
(iii)	*Canada Provincial debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5631(1) *"*highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by ~~DBRS, Moody's or S&P Corporation~~*a designated rating organization*.

~~**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5631(2) will be repealed and replaced with the following:**~~

~~In subsection 5631(1) "highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by a *designated rating organization.*~~

5632. - 5639. Reserved.

OFFSETS INVOLVING CONVERTIBLE SECURITIES

5640. Summary reference table

(1) The following reference table summarizes the basic reduced margin offset strategies available for *convertible securities*:

	Short convertible security	**Short underlying security**
Long convertible security	*currently convertible* - offset available for long and short positions in the same security	*currently convertible* - offset available where: • convertible into the *underlying security* - 5641(1)(i) • convertible into the cash equivalent of the unit value of the *underlying security* - 5641(1)(i) and 5641(1)(ii)
	• not *currently convertible* - offset available for long and short positions in same security	not *currently convertible* - 5642(1)
Long underlying security	offset available - 5643(1)	offset available for long and short positions in the same security

(2) Other reduced margin offset strategies available for *convertible securities*:

(i) offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction - 5644

5641. Offset where convertible security is held long and is currently convertible

(1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is *currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) if the *convertible security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying security*.

5642. Offset where convertible security is held long and is not currently convertible

(1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is not *currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) 40% of the *normal margin required* on the *underlying security*.

5643. Offset where convertible security is held short

(1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in a *convertible security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) 40% of the *normal margin required* on the *underlying security*.

5644. Offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction

(1) Where a *Dealer Member* or a client holds a long position in *Oldco securities* and short position in *Newco securities* and *equivalent quantities* of both positions are held and the pending reorganization that resulted in the creation of the *Newco securities* has received approval to proceed, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the combined *market value* of the *Oldco securities* over the combined *market value* of the *Newco securities*, if any.

(2) For the purposes of subsection 5644(1), "approval to proceed" means that:

(i) all legal requirements to proceed with the reorganization have been met,

(ii) all regulatory, competition bureau and court approvals to proceed with the reorganization have been received, and

(iii) the *Oldco securities* will be cancelled and replaced by an *equivalent number* of *Newco securities* within 20 *business days*.

5645. - 5649. Reserved.

OFFSETS INVOLVING CAPITAL SHARES

5650. Summary reference tables

(1) The following reference table summarizes the basic reduced margin offset strategies available for *capital shares*:

	Short capital share, with a conversion feature	**Short capital share and short split share preferred share, both with a conversion feature**	**Short underlying security**
Long capital share, with a conversion feature	offset available for long and short positions in same *capital share*	offset available for long and short positions in same *capital share*. *Normal margin* to be	*capital share* can be converted into *underlying security* - 5651(1)(i)

	Short capital share, with a conversion feature	**Short capital share and short split share preferred share, both with a conversion feature**	**Short underlying security**
		provided on short *split share preferred share* position	*capital share* can be converted into cash equivalent of unit value of *underlying security* - 5651(1)(i) and 5651(1)(ii)
Long capital share and long split share preferred share, both with a conversion feature	offset available for long and short positions in same *capital share*. *Normal margin* to be provided on long *split share preferred share* position	offset available for long and short positions in same *capital share* and same *split share preferred share*	*capital share* and *split share preferred share* can be converted into *underlying security* - 5652(1)(i) *capital share* and *split share preferred share* can be converted into cash equivalent of unit value of *underlying security* - 5652(1)(i) and 5651(2)(ii)
Long underlying security	offset available - 5653(1)	offset available - 5654(1)	offset available for long and short positions in same *underlying security*

(2) Other reduced margin offset strategies available for *capital shares*:

(i) offset involving long capital share and short *call option* contract positions - *5655*

5651. Offset involving long capital share and short underlying common share positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the sum of:

(I) the *capital share conversion loss*, if any, and

(II) the *normal margin required* on the *equivalent quantity* of *split share preferred shares*,

and

(b) the *normal margin required* on the underlying common shares,

and

(ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the margin otherwise required on the underlying common shares.

5652. Offset involving long capital share, long split share preferred share and short underlying common share positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position, a long *split share preferred share* position and a short underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

(i) lesser of:

(a) the *combined conversion loss*, if any, and

(b) the *normal margin required* on the underlying common shares,

and

(ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the margin otherwise required on the underlying common shares.

5653. Offset involving short capital share and long underlying common share positions

(1) Where a *Dealer Member* or a client holds a short *capital share* position and a long underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the sum of:

(I) the *capital share conversion loss*, if any, and

(II) the *normal margin required* on the *equivalent quantity* of *split share preferred shares*,

and

(b) the *normal margin required* on the underlying common shares,

and

(ii) 40% of the *normal margin required* on the underlying common shares.

5654. Offset involving short capital share, short split share preferred share and long underlying common share positions

(1) Where a *Dealer Member* or a client holds a short *capital share* position, a short *split share preferred share* position and a long underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

(i) lesser of:

(a) the *combined conversion loss*, if any, and

(b) the *normal margin required* on the underlying common shares,

and

(ii) 40% of the *normal margin required* on the underlying common shares.

5655. Offset involving long capital share and short call option contract positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short *call option* contract position expiring on or before the redemption date of the *capital shares* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the *normal margin required* on the *capital share* position less the *market value* of the *call option* contract position, provided that the net amount may not be less than zero,

and

(b) any excess of the *market value* of the underlying common shares over the *aggregate exercise value* of the *call option* contract position,

and

(ii) the *capital share conversion loss*, if any,

and

(iii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the underlying common shares.

5656. - 5659. Reserved.

OFFSETS INVOLVING WARRANTS, RIGHTS, INSTALLMENT RECEIPTS AND OTHER EXERCISABLE SECURITIES

5660. Summary reference tables

(1) The following reference table summarizes the basic reduced margin offset strategies available for *exercisable securities*:

	Short exercisable security	**Short underlying security**
Long exercisable security	*currently exercisable* - offset available for long and short positions in same security	*currently exercisable* - offset available where: • *exercisable security* can be exercised into *underlying security* - 5661(1)(i) and 5661(1)(ii) • *exercisable security* can be exercised into cash equivalent of unit value of *underlying security* - 5661(1)(i) through 5661(1)(iii)
	not *currently exercisable* - offset available for long and short positions in same security	not *currently exercisable* - 5662(1)
Long underlying security	offset available - 5663(1)	offset available for long and short positions in same security

5661. Offset where exercisable security is held long and is currently exercisable

(1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is *currently exercisable* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

and

(iii) if the *exercisable security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying securities*.

5662. Offset where exercisable security is held long and is not currently exercisable

(1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is not *currently exercisable* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

and

(iii) 40% of the margin otherwise required on the *underlying securities*.

5663. Offset where exercisable security is held short

(1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in an *exercisable security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

and

(iii) 40% of the margin otherwise required on the *underlying securities*.

5664. - 5669. Reserved.

OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS

DEBT SECURITIES

5670. Offsets involving callable, extendible and retractable debt securities

(1) Where a *Dealer Member* holds a position in *callable*, *extendible* or *retractable debt securities* they may elect to use a different maturity date for reduced margin offset purposes than the original maturity date of the security if the applicable conditions in the chart below are met:

Security	Condition	Maturity date election
(i) *Callable debt security*	*Market value* of security at or below 101% of call value	Original maturity date
	Market value of security greater than 101% of the call value	First *business day* after expiry date of *call protection period*
(ii) *Extendible debt security*	*Extension election period* has not expired and security is trading at or below the: *extension factor* x current principal amount	Original maturity date
	Extension election period has not expired and security is trading above the: *extension factor* x current principal amount	Extension maturity date
	Extension election period has expired	Original maturity date

Security	Condition	Maturity date election
(iii) *Retractable debt security*	*Retraction election period* has not expired and security is trading at or above the: *retraction factor* x current principal amount	Original maturity date
	Retraction election period has not expired and security is trading below the: *retraction factor* x current principal amount	Retraction maturity date
	Retraction election period has expired	Original maturity date

5671. Offsets involving Canadian government debt or Canadian listed equity securities and futures and forward contracts

(1) Where a *Dealer Member* or client account has a position in bonds, debentures or treasury bills issued or guaranteed by the Government of Canada or in *equity securities* listed on the Toronto Stock Exchange and the account has an offsetting futures or forward contract position on the same security, the positions may be offset and the minimum margin required for the positions may be computed with respect to the net long or net short position only.

5672. – 5679. Reserved.

OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS

SWAP POSITIONS

5680. Offset involving two interest rate swaps

(1) Where a *Dealer Member:*

(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar fixed (or floating) interest rate amounts calculated with reference to a notional amount,

and

(ii) is a party to another offsetting *interest rate swap* entitling it to receive (or requiring it to pay) a fixed (or floating) interest rate amount calculated with reference to the same notional amount, denominated in the same currency and within the same *maturity band* for margin purposes as the *interest rate swap* referred to in clause 5680(1)(i),

the two positions in clauses 5680(1)(i) and 5680(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the *fixed interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *fixed interest rate* receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

5681. Offsets involving interest rate swaps and federal government debt securities

(1) **Offset involving fixed interest rate swap component and federal government debt securities** - Where a *Dealer Member:*

(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *fixed interest rate* amounts calculated with reference to a notional amount,

and

(ii) holds a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt securities* described in category (i) of subsection 5210(1) with a principal amount equal to and denominated in the same currency as the notional amount of the *interest rate swap* and with a *term to maturity* that is within the same *maturity band* for margin purposes as the *interest rate swap*,

the two positions in clauses 5681(1)(i) and 5681(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position. Any margin requirement calculated for the separate *floating interest rate* receipt (or payment) component position will continue to be required unless that position separately qualifies for the offset set out in subsection 5681(2).

(2) **Offset involving floating interest rate swap component and federal government debt securities -** Where a *Dealer Member:*

(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *floating interest rate* amounts calculated with reference to a notional amount,

and

(ii) holds a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt security* described in category (i) of subsection 5210(1), maturing within one year with a principal amount equal to and denominated in the same currency as the notional amount of the swap,

the two positions in clauses 5681(2)(i) and 5681(2)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* in respect of the positions. Any margin requirement calculated for the separate *fixed interest rate* receipt (or payment) component position will continue to be required unless that position qualifies for the offset set out in subsection 5681(1).

5682. Offsets involving total performance swaps and underlying securities

(1) **Offset involving two total performance swaps** - Where a *Dealer Member*:

(i) is a party to a *total performance swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

and

(ii) is a party to another *total performance swap* entitling it to receive (or requiring it to pay) amounts calculated based on the performance of the same *underlying security* or basket of

securities, with reference to the same notional amount and denominated in the same currency,

the two positions in clauses 5682(1)(i) and 5682(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the performance payment (or receipt) component position may only be offset against the *normal margin required* on the performance receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

(2) **Offset involving short total performance swap component position and long underlying security position -** Where a *Dealer Member*:

(i) is a party to a *total performance swap* requiring it to pay amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

and

(ii) holds long an *equivalent quantity* of the same *underlying security* or basket of securities,

the two positions in clauses 5682(2)(i) and 5682(2)(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) nil, where it can be demonstrated that sell-out risk relating to the offset has been mitigated:

(a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the sell-out price for the long position in the *underlying security* or basket of securities, or

(b) since, due to the features inherent in the long position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the long position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

or

(iv) 20% of the *normal margin required* on the long position in the *underlying security* or basket of securities where sell-out risk relating to the offset has not been mitigated.

(3) **Offset involving long total performance swap component position and short underlying security position -** Where a *Dealer Member*:

(i) is a party to a *total performance swap* entitling it to receive amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

and

(ii) holds short an *equivalent quantity* of the same *underlying security* or basket of securities,

the two positions in clauses 5682(3)(i) and 5682(3)(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) nil, where it can be demonstrated that buy-in risk relating to the offset has been mitigated:

(a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the buy-in price for the short position in the *underlying security* or basket of securities, or

(b) since, due to the features inherent in the short position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the short position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

or

(iv) 20% of the *normal margin required* on the short position in the *underlying security* or basket of securities where buy-in risk relating to the offset has not been mitigated.

5683. – 5699. Reserved.

RULE 5700 | MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DERIVATIVE PRODUCTS

5701. Introduction

(1) Rule 5700 addresses the margin treatment of *derivative* product positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies. The *derivative* products covered in Rule 5700 include *exchange-traded options* whose underlying interests include:

- equities
- indexes
- *index participation units*
- debt
- currencies

and *over-the-counter options*, *futures contracts* and *futures contract options*.

(2) The order of subjects in Rule 5700 is:

(i) general requirements and summary reference tables [sections 5710 through 5715],

(ii) *exchange-traded options,*

(a) unhedged *option* positions [sections 5720 through 5721],

(b) hedged *option* positions [section 5725],

(c) *option* spreads and combinations [sections 5730 through 5740],

(d) security and *option* combinations and conversions [sections 5750 through 5755],

(e) futures and *options* combinations and conversions [sections 5760 through 5765],

(f) basket, participation unit and futures combinations [sections 5770 through 5772], and

(g) cross index offsets and the optional use of the Standard Portfolio Analysis methodology [sections 5775 and 5776],

(iii) *over-the-counter options* [section 5780], and

(iv) *futures contracts* and *futures contract options* [section 5790].

5702. - 5709. Reserved.

GENERAL REQUIREMENTS AND SUMMARY REFERENCE TABLES

5710. Agreement and account requirements

(1) A *Dealer Member* writing *exchange-traded options* on behalf of a client must:

(i) do so in a margin account and must have and maintain a written margin account agreement, or

(ii) for registered accounts that may engage in certain trades involving *exchange-traded options*, have and maintain a written account agreement defining the rights and obligations between them relating to transacting in *exchange-traded options.*

(2) A *Dealer Member* writing *over-the-counter options* on behalf of a client must do so in a margin account.

(3) A *Dealer Member* writing and issuing or guaranteeing *over-the-counter options* on behalf of a client must either:

(i) have and maintain with that client a separate written margin agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*, or

(ii) have and maintain with that client a supplementary *over-the-counter options* agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*.

5711. Requirement to calculate and obtain margin from clients

(1) A *Dealer Member* must calculate and obtain minimum *client margin* from clients with *option* positions according to the following:

(i) all open written transactions and resulting short positions must be carried in a margin account,

(ii) each *option* must be margined separately and:

(a) for equity, *index participation unit,* debt or currency *options*, any difference between the market price of the *underlying interest*, or

(b) for *index options*, any difference between the current value of the *index,*

and the *exercise price* of the *option* has value only in providing the amount of margin required on that particular *option*.

5712. Requirements for option offset strategies

(1) For all client account *option* offset strategies involving both short *option* and long *option* positions, the short option position must expire on or before the date of expiry of the long *option* position.

(2) For *Dealer Member* account *option* offset strategies involving *index option* and i*ndex participation unit option* combinations included in subsection 5730(1), the short option position must expire on or before the date of expiry of the long *option* position.

5713. Imposition of special margin requirements

(1) ~~*IIROC*~~The *Corporation* may impose special margin requirements on particular *options* or *options* positions.

5714. Treatment of option positions issued by different clearing corporations

(1) If a *Dealer Member* account or a client account holds *options* issued by the Canadian Derivatives Clearing Corporation and *options* issued by the Options Clearing Corporation, with the same *underlying interest*, they may be treated as being equivalent when calculating margin for the account.

5715. Summary reference tables of common strategies

(1) The following reference list summarizes the margin requirements for unhedged positions in *exchange-traded options:*

(i) long *call option* - 5720,

(ii) long *put option* - 5720,

(iii) short *call option* - 5721, and

(iv) short *put option* - 5721.

(2) The following reference table summarizes the most common reduced margin offset strategies available involving *exchange-traded options:*

	Short underlying interest	**Short call option**	**Long put option**	**Short call option and long put option**
Long underlying interest	offset available for long and short positions in same security	long *underlying interest* / short call combination - 5750(1)(i)	long *underlying interest* / long *put option* contract combination - 5751(1)(i)	conversion or long tripo - 5754(1)(i)
Long call option	short *underlying interest* / long *call option* contract combination - 5752(1)(i)	*call option* spread - 5730(1)(i)	long *call option* / long *put option* spread - 5732(1)(i)	long *call option* / short *call option* / long *put option* combination - 5733(1)(i)
Short put option	short *underlying interest* / short put combination - 5753(1)(i)	short *call option* / short *put option* spread - 5731(1)(i)	*put option* spread - 5730(1)(i)	
Long call option and short put option	reconversion or short tripo - 5755(1)(i)			

(3) Other reduced margin offset strategies available involving *exchange-traded options* are as follows:

(i) *option* positions hedged by *escrow receipts* or letters of *guarantee* - 5725,

(ii) long warrant - short call offset - 5734,

(iii) box spread - 5735, and

(iv) butterfly, iron butterfly and iron condor spreads – 5736 through 5740.

(4) The following reference table summarizes additional reduced margin offset strategies available involving *qualifying baskets of index securities*, *index participation units*, *index options* and *index participation unit options:*

	Short qualifying basket of index securities	**Short index participation units**	**Short index or index participation unit call options**	**Long index or index participation unit put options**	**Short and long respectively index or index participation unit call and put options**
Long qualifying basket of index securities	offset available for long and short positions in same index product	long basket - short *index participation units* - 5770(1)(i)	long basket - short call combination - 5750(1)(ii) and 5750(1)(iii)	long basket - long put combination - 5751(1)(ii) and 5751(1)(iii)	long tripo or conversion - 5754(1)(ii) and 5754(1)(iii)
Long index participation units	short basket - long *index participation units* - 5771(1)(i)	offset available for long and short positions in same index product	long *index participation units* - short call combination - 5750(1)(iv) and 5750(1)(v)	long *index participation units* - long put combination - 5751(1)(iv) and 5751(1)(v)	long tripo or conversion - 5754(1)(iv) and 5754(1)(v)
Long index or index participation unit call options	short basket - long call combination - 5752(1)(ii) and 5752(1)(iii)	short *index participation unit* - long call combination - 5752(1)(iv) and 5752(1)(v)			
Short index or index participation unit put options	short basket - short put combination - 5753(1)(ii) and 5753(1)(iii)	short *index participation unit* - short put combination - 5753(1)(iv) and 5753(1)(v)			
Long and short respectively index or index participation unit call and put options	short tripo or reconversion - 5755(1)(ii) and 5755(1)(iii)	short tripo or reconversion - 5755(1)(iv) and 5755(1)(v)			

(5) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *index options* and *index participation unit options:*

	Short index futures contract	**Short index or index participation unit call options**	**Long index or index participation unit put options**	**Short and long respectively index or index participation unit call and put options**
Long index futures contract	same contract month - margin computed in respect to the net long or net short position only	Short calls - long *index futures contracts* - 5760(1)(i) and 5760(1)(ii)	Long puts - long *index futures contracts* - 5761(1)(i) and 5761(1)(ii)	Futures conversion or long tripo - 5764(1)(i) and 5764(1)(ii)
	different contract months - refer to requirements on exchange on which the contract trades			
Long index or index participation unit call options	Long calls - short *index futures contracts* - 5762(1)(i) and 5762(1)(ii)			
Short index or index participation unit put options	Short puts - short *index futures contracts* - 5763(1)(i) and 5763(1)(ii)			
Long and short respectively index or index participation unit call and put options	Futures reconversion or short tripo - 5765(1)(i) and 5765(1)(ii)			

(6) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *qualifying baskets of index securities* and *index participation units*:

	Short qualifying basket of index securities	**Short index participation units**	**Short index futures contracts**
Long qualifying basket of index securities			Long *qualifying basket of index securities* - Short *index futures contracts* - 5772(1)(i)
Long index participation units			Long *index participation units* - short *index futures contracts* - 5772(1)(ii)
Long index futures contracts	Short *qualifying basket of index securities* - long *index futures contracts* - 5772(1)(i)	Short *index participation units* - long *index futures contracts* - 5772(1)(ii)	

(7) Other reduced margin offset strategies available involving any combination of *qualifying baskets of index securities, index participation units, index options, index participation unit options* and *index futures contracts* are as follows:

(i) long *qualifying basket of index securities* - short *index participation unit call options* - *commitment* to purchase *index participation units* (*Dealer Member* only) - 5550,

(ii) long *qualifying basket of index securities* - long *index participation unit put options* - *commitment* to purchase *index participation units* (*Dealer Member* only) - 5551, and

(iii) long *qualifying basket of index securities* - short *index participation units* - *commitment* to purchase *index participation units* (*Dealer Member* only) - 5552.

5716. - 5719. Reserved.

EXCHANGE-TRADED OPTIONS - UNHEDGED OPTION POSITIONS

5720. Long option positions

(1) Subject to subsection 5720(2), the minimum *Dealer Member inventory margin* and *client account margin* required for long *exchange-traded option* positions is the sum of:

(i) the lesser of:

(a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(I) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(II) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(III) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

(IV) for currency *options*, ~~*IIROC*~~the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

and

(b) the *option's in-the-money* amount, if any,

plus

(ii) where the period to expiry is greater or equal to nine months, 50% of the *option's time value*, 100% of the *option's time value* otherwise.

(2) If the position in subsection 5720(1) is a long *call option* on an equity that is the subject of a legal and binding cash take-over bid for which all conditions have been met, the margin required on that *call option* is:

(i) the *market value* of the *call option*,

minus

(ii) the excess, if any, of the amount offered over the *exercise value* of the *call option.*

If the take-over bid is made for less than 100% of the issued and outstanding securities, the margin requirement must be applied pro rata in the same proportion as the offer, and subsection 5720(1) applies to the balance.

5721. Short option positions

(1) Subject to subsection 5721(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *exchange-traded option* positions is:

(i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(a) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(b) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(c) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

(d) for currency *options*, ~~*IIROC*~~the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

minus

(ii) any *out-of-the-money* amount associated with the *option*.

(2) Subsection 5721(1) notwithstanding, the minimum *client account margin* required for short *exchange-traded option* positions shall be the amount determined by multiplying:

(i) in the case of a short *call option* position, the *market value* of the *underlying interest*,

(ii) in the case of a short *put option* position, the *aggregate exercise value* of the *option*,

by

(iii) one of the following percentages:

(a) for equity *options*, 5.00%,

(b) for *index options* or *index participation unit options*, 2.00%,

(c) for debt *options*, 1.00%,

(d) for currency *options*, 0.75%.

5722. - 5724. Reserved.

EXCHANGE-TRADED OPTIONS - HEDGED OPTION POSITIONS

5725. Hedged option positions

(1) No margin is required for the following *exchange-traded option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	Exchange-traded option position		Acceptable collateral
(i)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of the *underlying security*
(ii)	Short *put option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of government securities
(iii)	Short *put option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	letter of *guarantee*

provided the conditions in subsections 5725(2) and 5725(3) are met.

(2) For an *escrow receipt* to be acceptable collateral in subsection 5725(1):

(i) the issuer of the *escrow receipt* must be a financial institution approved by the *clearing corporation*,

and

(ii) all *clearing corporation* agreements must be signed and delivered to the *clearing corporation* and available for inspection by ~~*IIROC*~~the *Corporation* on request,

and

(iii) in the case of an *escrow receipt* evidencing the deposit of government securities, the securities must:

(a) be acceptable forms of *clearing corporation* margin,

(b) mature within one year of their deposit, and

(c) have a *market value* of greater than 110% of the *aggregate exercise value* of the short *put option*.

(3) For a letter of *guarantee* to be acceptable collateral in subsection 5725(1):

(i) the issuer must be:

(a) a financial institution approved by the *clearing corporation* to issue *escrow receipts*,

and

(b) a *chartered bank*, a Québec savings bank or a trust company licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000,

and

(ii) the letter must certify that the bank or trust company:

(a) holds on deposit for the client's account cash equal to the full *aggregate exercise value* of the *put option* and that amount will be paid to the *clearing corporation* against delivery of the *underlying interest* hedged by the *put option*,

or

(b) unconditionally and irrevocably guarantees to pay the *clearing corporation* the full amount of the *aggregate exercise value* of the *put option* against delivery of the *underlying interest* hedged by the *put option*,

and

(iii) the *Dealer Member* must deliver it to the *clearing corporation* and the *clearing corporation* must accept it as margin.

5726. - 5729. Reserved.

5730. Call option spreads and put option spreads

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Long (short) option position		**Short (long) option position**
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*put option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(iii)	*index call option*	and	*index participation unit call option* based on the same *index*
(iv)	*index put option*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5730(2).

(2) Provided the condition in subsection 5730(1) is met, the minimum margin required is the lesser of:

(i) the margin required on the short *option* position determined pursuant to section 5721,

or

(ii) the greater of:

(a) the spread loss amount, if any, that would result if both *options* were exercised,

and

(b) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position.

5731. Short call option - short put option spread

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Short option position		Short option position
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*index call option*	and	*index participation unit put option* based on the same *index*
(iii)	*index participation unit call option*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5731(2).

(2) The minimum margin required is the greatest of:

(i) the greater of:

(a) the margin required on the *call option* position,

or

(b) the margin required on the *put option* position,

and

(ii) the excess of the *aggregate exercise value* of the *put option* position over the *aggregate exercise value* of the *call option* position,

and

(iii) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position.

5732. Long call option - long put option spread

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Long option position		Long option position
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*index call option*	and	*index participation unit put option* based on the same *index*
(iii)	*index participation unit call option*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5732(2).

(2) The minimum margin required is the lesser of:

(i) the sum of:

(a) the margin required for the long *call option* position,

plus

(b) the margin required for the long *put option* position,

or

(ii) the sum of:

(a) 100% of the *market value* of the long *call option*,

plus

(b) 100% of the *market value* of the long *put option*,

minus

(c) the amount by which the *aggregate exercise value* of the *put option* exceeds the *aggregate exercise value* of the *call option*.

5733. Long call option - short call option - long put option

(1) Where a *Dealer Member* inventory or client account contains long *call option*, short *call option* and long *put option* positions in *exchange-traded options* on the same *underlying interest* and *equivalent quantities* of each position in the combination are held, the minimum margin required is:

(i) 100% of the *market value* of the long *call option*,

plus

(ii) 100% of the *market value* of the long *put option*,

minus

(iii) 100% of the *market value* of the short *call option*,

plus

(iv) the greater of:

(a) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the short *call option*, and

(b) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the long *put option*.

Where the amount calculated in clause 5733(1)(iv) is negative, this amount may be applied against the margin charge.

5734. Long warrant - short call option

(1) Where a *Dealer Member* inventory or client account contains long warrant and short call *exchange-traded option* positions on the same *underlying interest* and *equivalent quantities* of each position in the pairing are held, the minimum margin required is the sum of:

(i) the lesser of:

(a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(I) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(II) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(III) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

(IV) for currency *options*, ~~*IIROC*~~the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

or

(b) the spread loss amount, if any, that would result if both the *option* and the warrant were exercised,

and

(ii) the excess of the *market value* of the warrant over the *in-the-money* value of the warrant multiplied by 25%,

and

(iii) the *in-the-money* value of the warrant, multiplied by:

(a) 50%, where the expiration date of the warrant is 9 months or more away, or

(b) 100%, where the expiration date of the warrant is fewer than 9 months away.

5735. Box spread

(1) **Client account requirement -** Where a client account contains a box spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that the client holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *client account margin* required is the lesser of:

(i) the greater of the margin requirements calculated for the component call and put spreads pursuant to subsection 5730(2), and

(ii) the greater of the *out-of-the-money* amounts calculated for the component call and put spreads.

(2) **Dealer Member inventory account requirement -** Where a *Dealer Member* inventory account contains a box spread *exchange-traded option* combination on the same *underlying interest* with all *options* expiring at the same time, such that the *Dealer Member* holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *Dealer Member inventory margin* required is the sum of:

(i) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* and the *aggregate exercise value* of the long *put options*, and

(ii) the net *market value* of the *options*.

5736. Long butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a long butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that short positions in two *call options* (or *put options*) are held and the short *call options* (or short *put options*) are at a middle *exercise price* and are flanked on either side by a long *call option* (or long *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the net *market value* of the short and long *call options* (or *put options*).

5737. Short butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a short butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that long positions in two *call options* (or *put options*) are held and the long *call options* (or long *put options*) are at a middle *exercise price* and are flanked on either side by a short *call option* (or short *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the amount, if any, by which the exercise value of the long *call options* (or long *put options*) exceeds the exercise value of the short *call options* (or short *put options*).

5738. Long condor spread

(1) Where a *Dealer Member* inventory or client account contains a long condor spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order and the interval between the *exercise prices* is equal, comprising a short position in two *call options* (or *put options*) and the short *call options* (or short *put options*) are flanked on either side by a long *call option* (or long *put option*) having a lower and higher *exercise price* respectively, the minimum margin required is the net *market value* of the short and long *call options* (or *put options*).

5739. Short iron butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a short iron butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put option* with the same *exercise price* and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

5740. Short iron condor spread

(1) Where a client account contains a short iron condor spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that a client holds four separate *options* series wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put*

option and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

5741. - 5749. Reserved.

EXCHANGE-TRADED OPTIONS - SECURITY AND OPTION COMBINATIONS AND CONVERSIONS

5750. Long underlying interest or convertible security - short call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Long position		**Short option position**
(i)	*underlying interest* or *currently convertible security*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5750(2).

(2) Subject to additional margin requirements set out in subsections 5750(3) through 5750(5), the minimum margin required is the lesser of:

(i) the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position,

and

(ii) any excess of the *aggregate exercise value* of the *call options* over the normal *loan value* of the *underlying interest*, *index* basket or *index participation unit* position.

(3) Where the combination involves a *currently convertible security* position, additional margin is required to be provided in the amount of the *conversion loss*.

(4) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

(5) Where the combination involves either:

(i) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(ii) an *index participation unit* position and an *index option* position,

additional margin is required to be provided in the amount of the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

5751. Long underlying interest - long put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Long position		Long option position
(i)	*underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5751(2).

(2) Subject to additional margin requirements set out in subsection 5751(3), the minimum margin required is the greater of:

(i) lesser of:

(a) the *normal margin required* on the *underlying interest*,

or

(b) the excess of the combined *market value* of the *underlying interest* and the *put option* over the *aggregate exercise value* of the *put option*,

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5752. Short underlying interest - long call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		Long option position
(i)	*underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5752(2).

(2) Subject to additional margin requirements set out in subsection 5752(3), the minimum margin required is the sum of:

(i) 100% of the *market value* of the long *call option*,

plus

(ii) the greater of:

(a) the lesser of:

(I) any *out-of-the-money* value associated with the *call option*,

or

(II) the *normal margin required* on the *underlying interest*,

(b) where the combination involves:

(I) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(II) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position or *index participation unit* position held,

minus

(iii) where the *call option* is *in-the-money*, the *in-the-money* value, provided the overall margin requirement cannot be reduced to less than zero.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* multiplied by the *market value* of the basket.

5753. Short underlying interest - short put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		Short option position
(i)	*underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5753(2).

(2) Subject to additional margin requirements set out in subsection 5753(3), the minimum margin required is the greater of:

(i) the lesser of:

(a) the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position, and

(b) any excess of the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position over the *in-the-money* value, if any, of the *put options*,

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5754. Conversion or long tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Long position		Long option position		Short option position
(i)	*underlying interest*	and	*put option* with the same *underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*	and	*index participation unit call option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*	and	*index participation unit call option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5754(2).

(2) Subject to additional margin requirements set out in subsection 5754(3), the minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *put options*,

minus

(b) 100% of the *market value* of the short *call options*,

plus

(c) the difference, plus or minus, between the *market value* of the *underlying interest*, *index* basket or *index participation unit* position and the *aggregate exercise value* of the long *put options* or short *call options*, whichever is lower,

and

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5755. Reconversion or short tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		Long option position		Short option position
(i)	*underlying interest*	and	*call option* with the same *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5755(2).

(2) Subject to additional margin requirements set out in subsection 5755(3), the minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *call options*,

minus

(b) 100% of the *market value* of the short *put options*,

plus

(c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher and the *market value* of the *underlying interest*, *index* basket or *index participation unit* position,

and

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units*

underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5756. - 5759. Reserved.

EXCHANGE-TRADED OPTIONS - FUTURES AND OPTIONS COMBINATIONS AND CONVERSIONS

5760. Long index futures contract - short call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		Short option position
(i)	*index futures contracts*	and	*index call option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5760(2).

(2) The minimum margin required is the greater of:

(i) (a) the *normal margin required* on the *index futures contract* position,

minus

(b) the *aggregate market value* of the short *call options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

5761. Long futures contracts - long put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		Long option position
(i)	*index futures contracts*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5761(2) and 5761(3).

(2) Where the *put option* position is *out-of-the-money*, the minimum margin required is the greater of:

(i) the sum of:

(a) the *aggregate market value* of the long *put options*

plus

(b) the lesser of:

(I) (A) the daily settlement value of the *index futures contract* position,

minus

(B) the *aggregate exercise value* of the long *put options,*

(II) the margin required on the long *futures contract* position,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

(3) Where the *put option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

(i) any excess of the *aggregate market value* of the long *put options* over the *aggregate in-the-money* amount of the long *put options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities or* the *index participation units*.

5762. Short futures contracts - long call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		**Long option position**
(i)	*index futures contracts*	and	*index call option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract

months, the minimum margin required for the combination is calculated in accordance with subsections 5762(2) and 5762(3).

(2) Where the *call option* position is *out-of-the-money*, the minimum margin required is the greater of:

(i) the sum of:

(a) the *aggregate market value* of the long *call options*

plus

(b) the lesser of:

(I) (A) the *aggregate exercise value* of the long *call options*,

minus

(B) the daily settlement value of the *index futures contract* position,

(II) the margin required on the short *futures contract* position,

and

(ii) the published *tracking error margin rate* for the spread between the *index* future contracts and the related *index* or the *index* future contracts and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

(3) Where the *call option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

(i) any excess of the *aggregate market value* of the long *call options* over the *aggregate in-the-money* amount of the long *call options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities or* the *index participation units*.

5763. Short futures contracts - short put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		Short option position
(i)	*index futures contracts*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5763(2).

(2) The minimum margin required is the greater of:

(i) (a) the *normal margin required* on the *index futures contract* position,

minus

(b) the *aggregate market value* of the short *put options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

5764. Futures conversion or long tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		Long option position		Short option position
(i)	*index futures contracts*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*	and	*index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5764(2).

(2) The minimum margin required is the greater of:

(i) the sum of:

(a) the *aggregate market value* of the long *call options*,

minus

(b) the *aggregate market value* of the short *put options*,

plus

(c) the difference, plus or minus, between the daily settlement value of the long *futures contract*s and the *aggregate exercise value* of the long *put options* or the short *call options*, whichever is lower,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

5765. Reconversion or short tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		Long option position		Short option position
(i)	*index futures contracts*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5765(2).

(2) The minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *call options*,

minus

(b) 100% of the *market value* of the short *put options*,

plus

(c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher, and the daily settlement value of the short *futures contract*s,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

5766. - 5769. Reserved.

EXCHANGE-TRADED OPTIONS - BASKET, PARTICIPATION UNIT AND FUTURES COMBINATIONS

5770. Long qualifying basket of index securities - short index participation units

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long position		Short position
(i)	*qualifying basket of index securities*	and	*index participation units* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5770(2).

(2) The minimum margin required shall be the sum of:

(i) the published *tracking error margin rate*,

plus

(ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*,

multiplied by the *market value* of the *index participation units*.

5771. Long index participation units - short qualifying basket of index securities

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long position		Short position
(i)	*index participation units*	and	*qualifying basket of index securities* of the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5771(2).

(2) The minimum margin required shall be the sum of:

(i) the published *tracking error margin rate*, unless the long *index participation units* position is of size sufficient to be converted into a basket of *index* securities or a multiple thereof,

plus

(ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by the *market value* of the *index participation units*.

5772. Index futures contracts - qualifying baskets of index securities or index participation units

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long (short) futures position		Short (long) position
(i)	*index futures contracts*	and	*qualifying basket of index securities* of the same *index*
(ii)	*index futures contracts*	and	*index participation units* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5772(2).

(2) Subject to additional margin requirements set out in subsection 5772(3), the minimum margin required shall be the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities or* the *index participation units* held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5773. - 5774. Reserved.

EXCHANGE-TRADED OPTIONS - CROSS INDEX OFFSETS AND THE OPTIONAL USE OF THE STANDARD PORTFOLIO ANALYSIS METHODOLOGY

5775. Cross index offset combinations involving index products

(1) Offsets involving products based on two different indices are permitted provided:

(i) both indices qualify as an *index* as defined in subsection 5130(9),

(ii) there is significant performance correlation between the indices, and

(iii) ~~*IIROC*~~the *Corporation* has made available a published *tracking error margin rate* for cross *index* offsets involving the two indices.

Where offsets involving products based on two different indices are permitted the margin requirements set out in sections 5730 through 5772 may be used provided that any margin requirement calculated shall be no less than the published *tracking error margin rate* for cross *index* offsets involving the two indices.

5776. Optional use of the Standard Portfolio Analysis methodology

(1) For a *Dealer Member* inventory account constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.

If the *Dealer Member* selects the Standard Portfolio Analysis methodology, the margin requirements calculated under this methodology will supersede the requirements stipulated in these Rules.

~~*IIROC*~~The *Corporation* may restrict the application of this section 5776, if it considers continued use of the Standard Portfolio Analysis methodology to be inappropriate for *Dealer Member* margin requirements.

5777. - 5779. Reserved.

OVER-THE-COUNTER OPTIONS

5780. Long option positions

(1) The minimum *Dealer Member inventory margin* required for long *over-the-counter option* positions is:

(i) where the option's market price is less than $1.00, the *market value* of the option,

(ii) where the option's market price is $1.00 or more, and:

(a) the option is a *call option*, the *market value* of the *call option* less 50% of any excess of the *market value* of the *underlying interest* over the *aggregate exercise value* of the *call option*, or

(b) the option is a *put option*, the *market value* of the *put option* less 50% of any excess of the *aggregate exercise value* of the *put option* over the *market value* of the *underlying interest*.

(2) The minimum *client account margin* required for long *over-the-counter option* positions is the *market value* of the option.

5781. Short option positions

(1) Subject to subsection 5781(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *over-the-counter option* positions is:

(i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(a) for debt *options*, the margin rate used for the *underlying interest* as determined in sections 5210 through 5241,

(b) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5310 through 5315,

(c) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(d) for currency *options*, ~~*IIROC*~~the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in section 5460 through 5469,

minus

(ii) any *out-of-the-money* amount associated with the option.

(2) Subsection 5781(1) notwithstanding, the minimum *client account margin* required for short *over-the-counter option* positions shall be no less than the amount determined by multiplying:

(i) in the case of a short *call option* position, the *market value* of the *underlying interest*,

(ii) in the case of a short *put option* position, the *aggregate exercise value* of the option,

by 25% of the margin rate used for the *underlying interest*.

5782. Hedged option positions

(1) No margin is required for the following *over-the-counter option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	Over-the-counter option position		Acceptable collateral
(i)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of the *underlying security*
(ii)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of government securities

provided the conditions in subsection 5782(2) are met.

(2) For an *escrow receipt* to be acceptable collateral in subsection 5782(1) the issuer of the *escrow receipt* must be a financial institution approved by an *acceptable clearing corporation.*

(3) The requirements of this section 5782 apply, regardless of any otherwise available margin reduction or margin offset, in the following circumstance:

(i) where an *over-the-counter option* is written by a client that is not an *acceptable institution*, *acceptable counterparty* or *regulated entity*,

(ii) where the terms of the *over-the-counter option* require settlement by physical delivery of the *underlying interest*, and

(iii) where a margin rate less than 100% for the *underlying interest* has not been established under the ~~*IIROC*~~*Corporation requirements*.

5783. Option spreads and combinations

(1) Except as otherwise provided in this section 5783, the same reduced margin offsets are permitted for *over-the-counter options* as are provided in sections 5730 through 5772 for *exchange-traded options*, provided that the *underlying interest* is the same.

(2) In the case of spreads involving European exercise *over-the-counter options*:

(i) a margin offset is permitted where the spread consists of long and short European exercise option contracts with the same expiration date, and

(ii) a margin offset is permitted where the spread consists of a short European exercise option and long American exercise option, however

(iii) a margin offset is not permitted where the spread consists of a long European exercise option and a short American exercise option.

5784. Confirmation, delivery and exercise

(1) The *Dealer Member* must confirm every *over-the-counter option* transaction in writing, by mail or delivery, on trade date.

(2) *Over-the-counter option* contract payments, settlement, exercise and delivery must be made according to the terms of the *over-the-counter option* contract.

5785. - 5789. Reserved.

FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

5790. Minimum margin requirements

(1) Where a *Dealer Member* inventory or client account contains positions in *futures contracts* or *futures contract options*, the margin required is the greatest of:

(i) the margin required by the futures exchange on which the contract is entered into,

(ii) the margin required by the *clearing corporation*, and

(iii) the margin required by the *Dealer Member's* clearing broker, where applicable.

provided that where a *Dealer Member* or a client owns a commodity and such ownership is evidenced by warehouse receipts or comparable documentation and such *Dealer Member* or client also has a short position in *futures contracts* in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position only.

(2) Where a futures exchange or its *clearing corporation* prescribes margin requirements based on initial and maintenance rates, the margin required at the time the contract is entered shall be based on the prescribed initial rate. When subsequent adverse price movements in the value of

the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate amount shall be required. The *Dealer Member* may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.

(3) Where client trades are executed through an omnibus account, the *Dealer Member* shall require margin from each of its clients as though the trades were executed in separate fully disclosed accounts.

(4) Where spread margins are permitted in a client account, the *Dealer Member* shall note this in the margin records for this account.

(5) Where a *Dealer Member's* inventory account holds inter-commodity spreads in Government of Canada bond *futures contracts* and U.S. treasury bond *futures contracts* traded on a futures exchange in Canada and the United States and *equivalent quantities* of each position in the spread are held, the margin required is the greater of the margin required on either the long side or the short side only. For this purpose, the foregoing spreads shall be on the basis of $1.00 Canadian for each $1.00 U.S. of the contract size of the relevant *futures contracts*. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States Commodity Exchange Act.

(6) ~~*IIROC*~~The *Corporation* may prescribe, in its discretion, higher or lower margin requirements for any account or *person* that holds positions in *futures contracts* or *futures contract options*.

5791. - 5799. Reserved.

RULE 5800 | ACCOUNT RELATED AGREEMENTS

5801. Introduction

(1) Rule 5800 sets out the specific ~~*Dealer Member*~~*Corporation requirements* for the following account related agreements:

(i) ~~*IIROC*~~the *Corporation* standard agreements [section 5810],

(ii) account *guarantee* agreements [sections 5820 through 5825],

(iii) hedge agreements [section 5830],

(iv) cash and securities loan agreements [section 5840], and

(v) *repurchase agreements* and *reverse repurchase agreements* [section 5850].

5802. - 5809. Reserved.

5810. ~~IIROC~~Corporation standard agreements

(1) ~~*IIROC*~~The *Corporation* prescribes certain contents for and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment, or avoid capital penalties, under Rules 5200 through 5900. These agreements are described in sections 5820 through 5850 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on ~~*IIROC*~~the *Corporation's* website are provided as agreement forms acceptable to ~~*IIROC*~~the *Corporation*.

5811. - 5819. Reserved.

5820. General account guarantee requirements

(1) Subject to the requirements in sections 5821 and 5822, a *Dealer Member* may permit a client (the guarantor) to *guarantee* the accounts of another client provided:

(i) the *Dealer Member* informs the guarantor in writing of the initial contingent liability they will be assuming by signing the *guarantee* agreement,

(ii) the *Dealer Member* discloses to the guarantor in writing that the suitability of transactions in the guaranteed client's accounts will not be reviewed in relation to the guarantor,

(iii) the guarantor signs an approved written *guarantee* agreement with the *Dealer Member* that:

(a) identifies the guarantor by name,

(b) identifies the guarantor accounts that are to be used to provide the *guarantee*,

(c) identifies the accounts of the other client that are subject to the *guarantee*,

(d) binds the guarantor, its successors, assigns and personal legal representatives, and

(e) contains the minimum terms set out in subsection 5825(1),

(iv) the guaranteed client consents in writing to the *Dealer Member* providing the guarantor, at least quarterly, with the guaranteed client's account statements, and

(v) where the guarantor does not object, the guarantor is sent, at least quarterly, the guaranteed client's account statements.

(2) Where the guaranteed client does not consent to providing account statements, the *Dealer Member* must notify the guarantor in writing of the guaranteed client's refusal and that the *guarantee* agreement will not be accepted for margin reduction purposes.

5821. Requirements for account guarantees by shareholders, Registered Representatives or employees

(1) Section 5820 notwithstanding, a *Dealer Member* may only permit clients who are shareholders, *Registered Representatives* or *employees* of the *Dealer Member* to *guarantee* the accounts of another client:

(i) if:

(a) ~~*IIROC*~~the *Corporation* expressly approves the *guarantee* arrangement in writing,

(b) the *guarantee* agreement can only be cancelled with ~~*IIROC*~~the *Corporation's* written approval,

(c) the guarantor is not permitted to transfer cash, securities or any other property from the accounts of the guarantor without written approval from ~~*IIROC*~~the *Corporation*,

(d) the provisions of Schedule 4 of Form 1 continue to apply to the guaranteed client accounts regardless of the *guarantee*. Specifically, if the account has been restricted and subsequently fully margined, the *Dealer Member* will not conduct any trading in the account without ~~*IIROC*~~the *Corporation* approving the release of the *guarantee*,

or

(ii) if, in the case of a shareholder *guarantee*:

(a) there is public ownership of the *Dealer Member* or *holding company* securities held by the shareholder,

(b) the shareholder is not an *employee*, *Registered Representative* or *Executive* of the *Dealer Member*, and

(c) the shareholder does not hold a *significant equity interest* (defined in clause 2102(1)) of the *Dealer Member* or its *holding company*.

5822. Prohibited account guarantee arrangements

(1) A *Dealer Member* will not permit relief for *guarantees* in respect of accounts of *Executives*, *Directors*, shareholders, *Registered Representatives* or *employees*, by clients of the *Dealer Member*.

5823. Exception for immediate family

(1) Sections 5821 and 5822 do not apply to *guarantees* by members of the immediate family of the guaranteed account holder.

5824. Margin relief for guarantee agreements

(1) For account *guarantee* agreements entered into in compliance with the requirements of sections 5820 and 5821, the margin required for a client account that is guaranteed by another client may be reduced by any aggregate excess margin in the account of the guarantor.

(2) Subsection 5824(1) notwithstanding, a *Dealer Member* may only use a client *guarantee* for margin relief with respect to client accounts directly guaranteed by the guarantor.

(3) Subsection 5824(1) notwithstanding, margin relief is not permitted where a *guarantee* agreement is not confirmed by the guarantor in response to an annual audit confirmation request in accordance with the requirements set out in subsection 4185(1).

5825. Account guarantee agreement minimum terms

(1) An approved written agreement must contain the following minimum terms:

(i) the guarantor is jointly and severally liable for the client's obligations in the identified accounts and unconditionally guarantees, on an absolute and continuing basis, the prompt payment on demand of all the client's present and future liabilities in those accounts to the *Dealer Member*,

(ii) the *guarantee's* termination requires written notice to the *Dealer Member* and the termination does not affect the *guarantee* of any obligations incurred prior to it,

(iii) the *Dealer Member* is not required to demand from, or proceed or exhaust its remedies against, a client or any other *person*, or any security held to secure payment of the obligations, before making demand or proceeding under the *guarantee*,

(iv) the guarantor's liability shall not be released, discharged, reduced, limited or otherwise affected by:

(a) any right of set-off, counterclaim, appropriation, application or other demand or right the client or guarantor may have,

(b) any irregularity, defect, or informality in any obligation, document or transaction relating to the client or its accounts,

(c) any acts done, omitted, suffered or permitted by the *Dealer Member* in connection with the client, its accounts, the guaranteed obligations or any other *guarantees* or security held including any renewals, extensions, waivers, releases, amendments, compromises or indulgences agreed to by the *Dealer Member* and including the *Dealer Member* providing the client's account statements to the guarantor as permitted in clause 5820(1)(iv), or

(d) the death, incapacity, bankruptcy or other fundamental change of or affecting the client,

but if the guarantor is released from the *guarantee*, it must remain liable as principal debtor of the guaranteed obligations,

(v) the guarantor must:

(a) agree that the accounts as settled or stated between the *Dealer Member* and the client are conclusive as to the amounts owing, and

(b) agree not to exercise any rights of subrogation until all guaranteed obligations are paid in full, and

(vi) all securities, monies, *futures contracts* and *futures contract options*, foreign exchange contracts and other property held or carried by the *Dealer Member* for the guarantor must be pledged or a security interest granted in them to secure payment of the guaranteed obligations. The *Dealer Member* must be able to deal with those assets at any time, before or after demand under the *guarantee*, to satisfy payment.

5826. - 5829. Reserved.

5830. Hedge agreements

(1) In determining the margin relief available for a guaranteed client account pursuant to subsection 5824(1), a *Dealer Member* may exclude the following offsetting position hedges from the margin calculation:

	Long position		Short position
(i)	a long security position (other than an *option*, *futures contract* or foreign exchange contract position) held in the account of a guarantor that *guarantees* an account of another client of a *Dealer Member* in accordance with sections 5820 through 5825.	and	a short position in the same security, held in the guaranteed client account.
(ii)	a long *convertible security* position (including warrants, rights, shares and *installment receipts*) held in the account of a guarantor that *guarantees* an account of another client of a *Dealer Member* in accordance with sections 5820 through 5825.	and	a short position in the *underlying security*, held in the guaranteed client account.

(2) A *Dealer Member* must not accept a client account hedge for the purposes of subsection 5830(1), unless it obtains a written hedge agreement from the guarantor, in a form acceptable to ~~*IIROC*~~the *Corporation*, that:

(i) authorizes the *Dealer Member* to use any and all securities, other than *options*, *futures contracts* or foreign exchange contracts, held in long positions in the guarantor's account to hedge any and all short positions in the guaranteed client account to eliminate the margin required on those securities in the client account,

(ii) provides that if a security position that hedges a short position is sold and creates a margin deficiency in the guaranteed account, the guarantor agrees that the *Dealer Member* may restrict the guarantor's ability to withdraw cash or securities from its account or otherwise restrict the guarantor's ability to enter into transactions in that account until the deficiency has been rectified, and

(iii) provides that the guarantor agrees that the terms of the hedge agreement must remain in effect as long as any hedge positions between the two accounts remain in effect.

5831. - 5839. Reserved.

5840. Cash and securities loan agreements

(1) A cash and securities loan is the lending of securities for cash collateral or vice versa, other than an overnight cash loan.

(2) To avoid the margin penalties in Form 1 for cash and securities loan transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5840(3).

(3) This *written cash and securities loan agreement* must:

(i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

(4) If the parties agree to a secured loan as provided in sub-clause 5840(3)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(5) Whether the parties rely on set off or agree to a secured loan as provided in clause 5840(3)(iv), the *written cash and securities loan agreement* must provide for the securities borrowed and loaned to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

5841. - 5849. Reserved.

5850. Repurchase agreements and reverse repurchase agreements

(1) To avoid the margin penalties in Form 1 for *repurchase agreement* and *reverse repurchase agreement* transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5850(2).

(2) A written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must:

(i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

(3) If the parties agree to the agreement as provided in sub-clause 5850(2)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 5850(2)(iv), the written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must provide for the sold or purchased securities to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

5851. - 5899. Reserved.

RULE 5900 | AGREEMENT RELATED MARGIN REQUIREMENTS

5901. Introduction

(1) The general margin requirements for call loan, cash and securities loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in Form 1. Rule 5900 sets out specific margin requirements that apply to securities loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission of other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

5902. Definitions

(1) The following term has the meaning set out below when used in the Rule:

"fixed rate"	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.

5903. Margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

(1) Despite any margin requirement set out in Form 1 regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
Unhedged position		
Securities loan, *repurchase agreement*, or *reverse repurchase agreement*	▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five *business days*, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction, ▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a *fixed rate*, and ▪ the *Dealer Member* must perform the calculations daily and make full provision for any	The minimum *Dealer Member inventory margin* required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for the security involved in the loan / agreement with a term to maturity that is equal to the remaining loan / agreement term, as set out in section 5210, by (ii) the loan / agreement market value.

Position	Special conditions	Margin required
Unhedged position		
	principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on securities used as collateral.	

(2) Despite any margin requirement set out in Form 1 regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions is as follows:

Position	Special conditions	Margin required
Offsetting positions		
Securities loan versus *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is less than one year** away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)
Securities loan versus *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is greater than or equal to one year** away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk shall be determined by multiplying: (i) the relevant margin rate for the securities involved in the loans / agreements with terms to maturity that are equal to the remaining loan / agreement terms, as set out in section 5210, by (ii) the net market value of the two loans / agreements.

5904. - 5999. Reserved.

6000. – 6999. Reserved.

RULE 7100 | DEBT MARKETS

7101. Introduction

(1) Rule 7100 establishes trading and settlement practices to promote fair and efficient *debt securities* markets. Unless expressly indicated, Rule 7100 makes no distinction between institutional and retail markets.

(2) For greater certainty, the provisions set forth in Rule 7100 shall not be construed to abrogate or derogate from any other provision of general applicability found elsewhere within ~~*IIROC*~~*Corporation requirements*.

(3) Rule 7100 is divided into the following parts:

Part A - General

[sections 7102 and 7103]

Part B - Debt market trading

[sections 7104 through 7113]

PART A - GENERAL

7102. General requirements

(1) A *Dealer Member* must ensure that its trading in the *debt securities* markets does not contravene any *applicable laws*, regulation, direction, or requirement, whether or not such requirement is binding or has the force of law, including without limitation the directions or requirements of the Bank of Canada or the Department of Finance (Canada).

(2) A *Dealer Member* must not condone or knowingly facilitate conduct by its *affiliates*, clients, or counterparties that contravenes Rule 7100.

7103. Policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address trading and conduct in the *debt securities* market to provide reasonable assurance of compliance with *securities laws* and ~~*IIROC*~~*Corporation requirements*.

(2) A *Dealer Member*'s policies and procedures must specifically address the following items for the *debt securities* markets:

(i) restrictions of, and *controls* over, trading in *non-client accounts*,

(ii) a prohibition on the use of inside information,

(iii) a prohibition of front-running,

(iv) standards for fair allocation of new issues among clients,

(v) standards for prompt and accurate disclosure to clients and counterparties if any conflict of interest arises, and

(vi) for *retail client* accounts:

~~(a)~~ (a) written policies or guidelines issued to its *Registered Representatives* on the *Dealer Member's* mark-ups, mark-downs and commissions on *debt securities* sold to clients or purchased from clients, and

~~(b)~~ (b) reasonable monitoring procedures to detect mark-ups, mark-downs or commissions that exceed the maximums specified by the *Dealer Member*, and to ensure any deviation is justified.

(3) An *Executive* responsible for the appropriate business group of the *Dealer Member* must approve the policies, procedures and *internal controls* referred to in section 7103.

(4) A *Dealer Member* must regularly review its policies and procedures to ensure they are appropriate for the size, nature, and complexity of the *Dealer Member's* business.

PART B - DEBT MARKET TRADING

7104. Trading personnel

(1) ~~A~~An *Dealer Member* must ensure that all personnel trading in the *debt securities* markets are:

(i) properly qualified and trained, and

(ii) aware of ~~*IIROC*~~*Corporation requirements* and *applicable laws* relating to *debt securities* market trading.

(2) A *Dealer Member* must ensure that its personnel use clear and unambiguous language in their trading activities.

(3) A *Dealer Member's* personnel must be familiar with the appropriate trading terminology and conventions.

(4) A *Supervisor* in the appropriate business group of the *Dealer Member* must supervise its trading activities.

7105. Confidentiality

(1) Except with the express permission of the party concerned or as required by *applicable laws*, a *Dealer Member*:

(i) must ensure that its dealings with clients and counterparties are confidential,

(ii) must not disclose or discuss, or request that others disclose or discuss, any client's or counterparty's participation in the *debt securities* markets or the terms of any trading or anticipated trading, and

(iii) must ensure on a pre-trade basis that its own trading activities and planning strategies are kept confidential for market integrity purposes.

(2) A *Dealer Member's* policies and procedures relating to *debt securities* must specifically address:

(i) restricting access to confidential information to the personnel that require it for their jobs,

(ii) confining trading by designated personnel to restricted-access office areas, and

(iii) using secure forms of communications and technology.

(3) A *Dealer Member* that is a *Government Securities Distributor* (defined in section 7202) must comply with requests for information from the Bank of Canada.

7106. Resources and systems

(1) A *Dealer Member* must have sufficient capital, liquidity support, and personnel to support its trading activities.

(2) A *Dealer Member* must have comprehensive operating systems, including all aspects of risk management, transaction valuation, technology, and financial reporting to ensure full support for trading.

7107. Conflicts of interest

(1) A *Dealer Member* must ensure that its dealings in *debt securities* markets are fair and transparent.

(2) A *Dealer Member* must fulfill its duties to clients before its own interests or those of its personnel.

7108. Duty to deal fairly

(1) A *Dealer Member* must observe high standards of ethics and conduct in transacting business to maintain investor confidence in the *debt securities* markets.

(2) A *Dealer Member* must prohibit any business conduct or practice that is unbecoming or detrimental to the public interest.

(3) A *Dealer Member* must act fairly, honestly, and in good faith when marketing, entering into, carrying out, and administering trades in the *debt securities* markets.

7109. Manipulative and deceptive practices in the debt markets

(1) In its trading activities in the *debt securities* markets, a *Dealer Member* must not, directly or indirectly, engage or participate in any act, method or practice it knows or ought reasonably to know is manipulative or deceptive.

(2) Without limiting the conduct prohibited by Rule 7100, the following are manipulative or deceptive practices:

(i) carrying out trades intended to artificially increase trading volumes,

(ii) carrying out trades intended to artificially change trading prices,

(iii) participating in or tacitly consenting to spreading rumours or information about issuers that are known, or ought reasonably to be known, to be false or misleading,

(iv) disseminating any information that falsely states or implies governmental approval of any institution or trading, or

(v) conspiring or colluding with another market participant to manipulate or unfairly deal in the *debt securities* markets.

7110. Taking unfair advantage

(1) A *Dealer Member* must not engage in trading practices that take unfair advantage of clients or counterparties by:

(i) acting on knowledge of a new issue or client order to unfairly profit from the expected market movement or distorted market levels,

(ii) carrying out proprietary trades ahead of client orders on the same side of the market without first disclosing to the client the intention to do so and obtaining the client's approval,

(iii) profiting unfairly by using proprietary information that if released could reasonably be expected to affect market prices,

(iv) using material non-public information,

(v) abusing market procedures or conventions to obtain an unfair advantage over, or unfairly prejudice, its counterparties or clients, or

(vi) completing a trade when the price is clearly outside of the prevailing market and proposed or agreed to as a result of a manifest error.

7111. Derivatives trading

(1) The prohibitions in sections 7109 and 7110 apply to trading in *derivatives* of *debt securities*.

7112. Prohibited practices

(1) A *Dealer Member* must not accept any order or carry out any trade where the *Dealer Member* knows, or has reasonable grounds to believe, the result would contravene ~~*IIROC*~~*Corporation requirements* or any *applicable laws*.

(2) An *Approved Person* or *employee* of a *Dealer Member* must not accept any material consideration, including *remuneration*, gratuity or benefit, from any *person* other than the *Dealer Member* for any activities conducted on behalf of a client.

(3) A *Dealer Member* must not offer any consideration, including *remuneration*, gratuity, or benefit, to any partner, director, officer, employee, agent or shareholder of a client or any *associate* of such *persons*, unless the prior written consent of the client has been obtained.

(4) Consideration that is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest is not consideration under subsections 7112(2) and 7112(3).

7113. Surveillance and reporting

(1) A *Dealer Member* must monitor the trading and conduct of its *employees* and *agents* in the *debt securities* markets.

(2) A *Dealer Member* must promptly report to ~~*IIROC*~~the *Corporation* or other authority having jurisdiction, including the Bank of Canada:

(i) any breaches of ~~*IIROC*~~*Corporation requirements*, or

(ii) suspicious or irregular market conduct.

(3) When requested by ~~*IIROC*~~the *Corporation* or the Bank of Canada (with respect to Government of Canada securities), a *Dealer Member* and any *related company* must disclose, on a confidential basis, the respective par value of each of its holdings in certain specified assets, in the form prescribed by the Bank of Canada (also known as a "Net Position Report"). On request, a *Dealer Member* must also provide any other information to identify large holdings that would permit a participant to have undue influence over the *debt securities* markets.

7114. – 7199. Reserved.

RULE 7200 | TRANSACTION REPORTING FOR DEBT SECURITIES

7201. Introduction

(1) Rule 7200 requires *Dealer Members* to report information about each of their transactions (and the transactions of any *affiliate* that is a *Government Securities Distributor* (defined in section 7202)) in *debt securities* to ~~*IIROC*~~the *Corporation* through a system maintained by ~~*IIROC*~~the *Corporation*.

(2) The reported transaction data required by Rule 7200 is used in ~~*IIROC*~~the *Corporation's* surveillance of the *debt securities* market to identify potential market abuses such as violations of the fair pricing requirements of section 3125, insider trading and market manipulation. It also supports ~~*IIROC*~~the *Corporation's* general inspection and enforcement activities, rulemaking, and other regulatory functions. The trade data received pursuant to Rule 7200 enables appropriate oversight to ensure the integrity of over-the-counter *debt securities* market trading and strengthen standards of investor protection.

(3) For the purposes of Rule 7200, fact that a security was issued in another country or denominated in a foreign currency does not disqualify it from being a *debt security*.

7202. Definitions

(1) The following terms have the meaning set out below when used in Rule 7200:

"authorized agent"	A *Dealer Member* or other business entity that has successfully enrolled with ~~*IIROC*~~the *Corporation* under section 7205 to submit debt securities transaction reports on behalf of *Dealer Members*.
"CUSIP"	Committee on Uniform Securities Identification Procedures.
"file receipt"	An electronic acknowledgement that confirms the transaction reporting data file has been successfully transmitted.
"Government Securities Distributor"	An entity that has been given notice of its status as such by the Bank of Canada and applies to those bidders eligible to participate directly in the tender process at Government of Canada auctions.
"ISIN"	International Securities Identification Number.
"MTRS 2.0"	The Market Trade Reporting System operated by ~~*IIROC*~~the *Corporation* for reporting *debt securities* transactions.
"MTRS 2.0 Enrollment Form"	The form filed by a *Dealer Member* with ~~*IIROC*~~the *Corporation* to supply contact and other information that may be needed by ~~*IIROC*~~the *Corporation* in connection with the *Dealer Member's* reporting of *debt securities* transactions. An MTRS 2.0 Enrollment Form must also be filed by any party seeking to act as an *authorized agent* for a *Dealer Member* in reporting transaction data to *MTRS 2.0*.
"riskless principal trade"	A trade in a *debt security* that involves two offsetting orders (buy and sell) that are filled through transactions executed against ~~a~~an *Dealer Member's* trading or other proprietary account, with the execution of one of the orders dependent upon the receipt or execution of the other. A riskless principal trade results in two offsetting principal transactions on the *Dealer Member's* books, rather than one agency transaction. A *Dealer Member* typically performs a riskless principal trade to fill a client order with an offsetting transaction in the market or with another client.

"special condition indicator"	A code used on a transaction report to indicate that the transaction has certain attributes. Among other uses, the special condition indicator helps to identify transactions that may be priced differently than other transactions in the same issue (for instance, a primary market transaction subject to a fixed price offering agreement). Special condition indicators are also used to identify *repurchase agreement* transactions, transactions that involve parties related to the *Dealer Member* executing the transaction, and certain other conditions that may apply to a transaction and that are relevant to the regulatory and market surveillance purposes of Rule 7200.

7203. Reporting requirements

(1) Every *Dealer Member* must report each of its transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) and the transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) of any *affiliate* that is a *Government Securities Distributor*, to ~~*IIROC*~~the *Corporation* within the timeframes and in the manner specified in Rule 7200, subject to the exceptions stated below in subsection 7203(2).

(2) The following must not be reported under subsection 7203(1):

(i) a transaction in *debt securities* that have no *ISIN* or *CUSIP* number assigned on the date of trade execution, except that, if that transaction is a new issue of a *debt security*, it shall be reported within the timeframe stated in clause 7204(1)(ii),

(ii) a transaction in exchange listed *debt securities* executed on a *Marketplace* that transmits to ~~*IIROC*~~the *Corporation* trade information required under National Instrument 23-101,

(iii) a transaction between two separate business units or profit centres within the reporting *Dealer Member* where there is no change in *beneficial ownership*,

(iv) a *repurchase agreement* transaction or *reverse repurchase agreement* transaction executed by a *Dealer Member* that is not a *Government Securities Distributor*,

(v) a transaction in which the Bank of Canada or the Bank of Canada on behalf of the Government of Canada is the counterparty, and

(vi) a transaction, other than a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, executed by an *affiliate* that is a *Government Securities Distributor* only for Government of Canada treasury bills, in a *debt security* with an original term to maturity of greater than one year.

(3) Reporting responsibilities in the most common situations are as follows:

(i) in a transaction between a *Dealer Member* and a client or non-client, the *Dealer Member* reports,

(ii) in a transaction between a *Dealer Member* and an *inter-dealer bond broker* or issuer, the *Dealer Member* reports, and

(iii) in a transaction between a *Dealer Member* and an Alternative Trading System, the *Dealer Member* must report. In a transaction between an Alternative Trading System and a client, the Alternative Trading System reports.

(4) A *Dealer Member* may use an *authorized agent* to submit transactions to *MTRS 2.0*. A *Dealer Member* utilizing an *authorized agent* for transaction reporting remains responsible for compliance with Rule 7200.

(5) A *Dealer Member* is required to obtain a *Legal Entity Identifier* and must comply with all applicable requirements imposed by the *Global Legal Entity Identifier System*.

(6) Transaction reports made under subsection 7203(1) must accurately and completely reflect the reported transaction and must contain the following data elements relevant to a bond or *repurchase agreement* transaction or *reverse repurchase agreement* transaction, as applicable:

No.	**Data**	**Description**
1.	SECURITY IDENTIFIER	The *ISIN* number or *CUSIP* number assigned to the securities in the transaction
2.	SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, *ISIN* or *CUSIP*
3.	TRADE IDENTIFIER	Unique identifier assigned to the transaction by the reporting *Dealer Member*
4.	ORIGINAL TRADE IDENTIFIER	Included on trade cancelations or corrections
5.	TRANSACTION TYPE	Indicates whether the transaction is new, a cancelation, or a correction
6.	EXECUTION DATE	The day the transaction was executed
7.	EXECUTION TIME	The time at which the transaction was executed, either as recorded by an electronic trading system or time of entry into a trade booking system
8.	SETTLEMENT DATE	The date the transaction is reported to settle
9.	TRADER IDENTIFIER	Assigned by reporting *Dealer Member* to identify the *individual*/desk responsible for the transaction
10.	REPORTING DEALER IDENTIFER	The *Legal Entity Identifier* of the reporting *Dealer Member*
11.	COUNTERPARTY TYPE	Indicates whether the counterparty was a client, non-client, a *Dealer Member*, a *Dealer Member* acting as an Alternative Trading System, an *inter-dealer bond broker* (IDBB), an issuer or a bank
12.	COUNTERPARTY IDENTIFIER	The *Legal Entity Identifier* of the counterparty, when the counterparty is a *Dealer Member*, bank, *inter-dealer bond broker* (IDBB), or Alternative Trading System. Bank trades are defined as trades with Schedule I *chartered banks* and Canadian offices of Schedule II *chartered banks*
13.	CLIENT ACCOUNT TYPE	Indicates whether the client is a *retail client* or an *institutional client*. This field must be populated if the counterparty type is 'client'
14.	CLIENT LEI	The *Legal Entity Identifier* of the client supervised as an *institutional client.*
15.	CLIENT ACCOUNT IDENTIFIER	The account number of the client supervised as a *retail client*.
16.	INTRODUCING/ CARRYING DEALER INDICATOR	Indicates whether the reporting *Dealer Member* acted in the capacity of an *introducing broker* or *carrying broker*

No.	Data	Description
17.	ELECTRONIC EXECUTION INDICATOR	Indicates if the transaction was executed on or facilitated through an electronic trading venue
18.	TRADING VENUE IDENTIFER	The *Legal Entity Identifier* of the electronic trading venue
19.	SIDE	Indicates whether the reporting *Dealer Member* was a buyer or seller
20.	QUANTITY	Par value of securities
21.	PRICE	The price at which the transaction was executed, including any mark-ups or mark-downs or commission
22.	BENCHMARK SECURITY IDENTIFIER	The *ISIN* or *CUSIP* of the bond used as pricing benchmark (if any)
23.	BENCHMARK SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, *ISIN* or *CUSIP*
24.	YIELD	The yield as stated on the client confirmation
25.	COMMISSION	For *retail client* transactions, the total amount of any mark-up or mark-down, commission or other services charges as stated on the client confirmation
26.	CAPACITY	Indicates whether the *Dealer Member* acted as principal or agent (*riskless principal trades* reported as principal)
27.	PRIMARY MARKET	*Special condition indicator* to indicate that the transaction is being submitted by an underwriter of a new issue of *debt securities* and that, at the time of the transaction, the securities were subject to a fixed price offering agreement. "Take-down" allocations from a syndicate manager to syndicate members are included in this designation as well as customer allocations by any member of the underwriting group subject to a fixed price offering agreement at the time of trade
28.	RELATED PARTY INDICATOR	*Special condition indicator* to indicate that the counterparty is an *affiliate* of the *Dealer Member*
29.	NON RESIDENT INDICATOR	*Special condition indicator* to indicate that the transaction is one with a non-resident counterparty
30.	FEE BASED ACCOUNT INDICATOR	*Special condition indicator* to indicate that the transaction is for a *retail client* account paying non-transaction-based fees as partial or full *remuneration* for the *Dealer Member's* transaction execution services
Elements specific to *repurchase agreement* transactions or *reverse repurchase agreement* transactions:		
No.	**Data**	**Description**
31.	REPO AGREEMENT IDENTIFIER	Unique identifier assigned to the *repurchase agreement* transaction or *reverse repurchase agreement* transaction by the reporting *Dealer Member*
32.	REPO TYPE	Indicates whether the transaction was conducted as part of a *repurchase agreement*, a *reverse repurchase agreement*, a sell/buy-back, or a buy/sellback

No.	Data	Description
33.	REPO TERM	Indicates whether the *repurchase agreement* transaction or *reverse repurchase agreement* transaction has fixed term or is an open term *repurchase agreement* transaction or *reverse repurchase agreement* transaction. May indicate whether *repurchase agreement* transaction or *reverse repurchase agreement* transaction is evergreen or extendable. Optional values
34.	REPO MATURITY DATE	The maturity date if the *repurchase agreement* transaction or *reverse repurchase agreement* transaction has a term
35.	CURRENCY OF REPO	The currency denomination of the cash payment used for the initial purchase of the security in a *repurchase agreement* or *reverse repurchase agreement*
36.	REPO RATE	The *repurchase agreement* or *reverse repurchase agreement* interest rate. If the interest rate is not a term of the contract, then it is the interest rate implied by the difference between the sale (purchase) price and its repurchase (resale) price
37.	REPO HAIRCUT	The *repurchase agreement* or *reverse repurchase agreement* haircut. If the haircut is not a term of the contract, then it is the haircut implied by the disparity between the purchase price and the *market value* of the security at the time of initial purchase
38.	REPO COLLATERAL SECURITY TYPE	Where the *Dealer Member* is aware of the collateral being used, indicates the type of identifier that was submitted for a single security, (*ISIN* or *CUSIP)*, or if the *repurchase agreement* transaction or *reverse repurchase agreement* transaction is for multiple securities. Where the *Dealer Member* is not aware of the collateral being used, indicates general.
39.	REPO COLLATERAL SECURITY IDENTIFER	The *ISIN* or *CUSIP* number of the security underlying a *repurchase agreement* transaction or *reverse repurchase agreement* transaction at the beginning of the agreement if a single security is used as collateral
40.	CLEARING HOUSE	If the *repurchase agreement* transaction or *reverse repurchase agreement* transaction was centrally cleared, the *Legal Entity Identifier* of the central clearing house
41.	TRI-PARTY REPO INDICATOR	Indicates whether the *repurchase agreement* transaction or *reverse repurchase agreement* transaction is a tri-party repo.

(7) The reporting *Dealer Member* must ensure that the registration status of its *Legal Entity Identifier* has not lapsed.

7204. Reporting timeframes

(1) A *Dealer Member* must ensure that a transaction report for which the *Dealer Member* is responsible is received by ~~*IIROC*~~the *Corporation* in proper form and with complete and accurate information within the following timeframes:

(i) for transactions in *debt securities* with *ISIN* or *CUSIP* Numbers assigned on the date of trade execution:

(a) if the date of trade execution is a *business day* and the time of transaction execution is no later than 4:00 p.m., the report must be made no later than 10:00 p.m. on the same *business day* as the date of trade execution,

(b) if the date of trade execution is a *business day* and the time of transaction execution is after 4:00 p.m., the report:

(I) may be made by 10:00 p.m. on the same *business day* as the date of the transaction execution, and

(II) must be made no later than 10:00 p.m. on the first *business day* following the date of trade execution, and

(c) for all other transactions, including those executed on a Saturday, Sunday, or any officially recognized Federal or Provincial statutory holiday on which the system is closed, the report must be made no later than 10:00 p.m. on the first *business day* following the date of trade execution,

provided, however, that:

(ii) for transactions in new issue *debt securities* with no *ISIN* or *CUSIP* number assigned, a transaction report required under clause 7203(2)(i) must be made:

(a) where the *ISIN* or *CUSIP* is assigned before 4:00 p.m., no later than 10:00 p.m. on the same *business day* that the *ISIN* or *CUSIP* number is assigned,

(b) where the *ISIN* or *CUSIP* is assigned after 4:00 p.m., no later than 10:00 p.m. on the first *business day* following the day that the *ISIN* or *CUSIP* was assigned.

(2) Upon a successful submission and receipt by ~~*IIROC*~~the *Corporation* of transaction reports, *MTRS 2.0* provides the submitter with *file receipts*, which must be retained by the *Dealer Member*:

(i) in a central, readily accessible place for a period of two years from the date of each *file receipt*, and

(ii) in any location from which the *File Receipts* may be retrieved within a reasonable period of time for a period of seven years from the date of each *file receipt*.

7205. Enrollment requirements

(1) A *Dealer Member* or *authorized agent* that will submit *debt securities* transaction reports to *MTRS 2.0* must enroll in *MTRS 2.0* and receive file submission credentials from ~~*IIROC*~~the *Corporation* by completing the *MTRS 2.0 Enrollment Form* with all required information, including technical and business contact points.

(2) Once enrolled, *Dealer Members* remain responsible for keeping all information on the *MTRS 2.0 Enrollment Form* up to date.

7206. – 7299. Reserved.

RULE 7300 | INTER-DEALER BOND BROKERS

7301. Introduction

(1) Rule 7300 describes ~~*IIROC*~~*Corporation requirements* for *inter-dealer bond brokers* used by *Dealer Member*s. Its purposes are to ensure the financial viability of *inter-dealer bond brokers* and make the *debt securities* market more efficient.

(2) Rule 7300 is divided into the following parts:

Part A - General requirements
[section 7303]

Part B - Requirements for inter-dealer bond broker approval and continued approval
[sections 7304 and 7305]

Part C - Changes to ~~IIROC~~Corporation requirements for inter-dealer bond brokers
[section 7306]

7302. Definitions

(1) The following terms have the meaning set out below when used in Rule 7300:

"domestic debt securities"	Canadian dollar denominated *debt securities* issued or primarily traded in Canadian markets, whether issued by the Government of Canada, a province, a municipality, a crown corporation, or a private sector corporation, and includes securities being traded on a "when issued" basis. Eurodollar *debt securities* are not *domestic debt securities*.
"inter-dealer bond broker client"	A *person* permitted by an *inter-dealer bond broker* to use its services to trade *domestic debt securities*.
"inter-dealer bond broker trader"	An *individual* supervised or controlled by an *inter-dealer bond broker client*, either through an employee or other similar relationship, who is authorized by the *inter-dealer bond broker client* to use the *inter-dealer bond broker* to buy or sell *domestic debt securities* for that *inter-dealer bond broker client*.
"information processor"	Any *person* that receives and provides information under National Instrument 21-101 and has filed a 21-101F5 and, in Québec, that is a recognized information processor.

PART A - GENERAL REQUIREMENTS

7303. Dealer Members must trade through ~~an IIROC~~a Corporation approved inter-dealer bond broker

(1) A *Dealer Member* that trades *domestic debt securities* through the facilities of an *inter-dealer bond broker* must do so through ~~*an IIROC*~~*a Corporation* approved *inter-dealer bond broker*. Trades must comply with the *inter-dealer bond broker's* operating procedures and ~~*IIROC*~~*Corporation requirements*.

PART B - REQUIREMENTS FOR INTER-DEALER BOND BROKER APPROVAL AND CONTINUED APPROVAL

7304. Eligibility of inter-dealer bond broker for ~~IIROC~~Corporation approval

(1) An applicant for ~~*IIROC*~~*Corporation* approval as an *inter-dealer bond broker* must:

(i) be registered or licensed in each province or territory where it requires registration or licensing,

(ii) comply with *securities laws* and requirements of any *securities regulatory authority* having jurisdiction over the applicant, and

(iii) comply with the standards and conditions of approval described in section 7305.

(2) An applicant for approval as an *inter-dealer bond broker* must submit its application to ~~*IIROC*~~the *Corporation* together with any information required by ~~*IIROC*~~*Corporation requirements*.

7305. ~~IIROC~~Corporation requirements for inter-dealer bond broker approval and continued approval

(1) An *inter-dealer bond broker* must comply with the requirements in section 7305 to be approved by ~~*IIROC*~~the *Corporation* and to retain its approval.

(2) An *inter-dealer bond broker* must have and maintain at least $500,000 of shareholders' equity, or have a parent corporation with at least $500,000 of shareholders' equity irrevocably *guarantee* that amount.

(3) An *inter-dealer bond broker* must:

(i) provide evidence to ~~*IIROC*~~the *Corporation* that all of its *inter-dealer bond broker clients* are and will continue to be:

(a) *Dealer Member*s,

(b) Canadian *chartered banks* or other organizations described in clause 7305(4)(iii) below, or

(c) any other ~~*IIROC*~~*Corporation* approved financial institution,

(ii) require each new *inter-dealer bond broker client*, other than a *Dealer Member* or Canadian *chartered bank*, to provide it with recent financial statements or other evidence of financial condition and a favourable reference letter from a participant in ~~an *IIROC*~~a *Corporation* approved *inter-dealer bond broker*, and

(iii) provide evidence to ~~*IIROC*~~the *Corporation* that all of the *inter-dealer bond broker traders* for its *inter-dealer bond broker clients* will be located in Canada.

(4) Clause 7305(3)(iii) does not apply to an *inter-dealer bond broker trader* trading for an *inter-dealer bond broker client* that:

(i) is a Schedule I *chartered bank* or its *affiliate* (other than an *affiliate*, or its *subsidiary*, whose business is mainly securities),

(ii) is a Schedule II *chartered bank* or its *subsidiary* of such a bank whose primary business is not securities (this exception does not apply to *inter-dealer bond broker traders* of other *affiliates* of *chartered banks*), or

(iii) (a) is a *Dealer Member* or branch office member,

(b) is a *Dealer Member's affiliate* that has entered into an agreement as subsection 7305(7) describes and that either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or

(c) has entered into an agreement as subsection 7305(7) describes and:

(I) is not a *Dealer Member's affiliate*,

(II) is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, and

(III) gives ~~*IIROC*~~the *Corporation* a satisfactory legal opinion stating that the *inter-dealer bond broker client* does not contravene the registration requirements of *securities laws*.

(5) The *inter-dealer bond broker* must only deal in *domestic debt securities* as agent on behalf of its *inter-dealer bond broker clients* and must not act as principal, either directly or indirectly.

(6) The *inter-dealer bond broker* must provide accurate and timely information regarding details of orders and trades for *domestic debt securities* to the *information processor*, as required by National Instrument 21-101.

(7) *Inter-dealer bond broker clients* outside Canada must sign an agreement under sub-clauses 7305(4)(iii)(b) and 7305(4)(iii)(c) that complies with the following provisions:

(i) the parties to the agreement must include ~~*IIROC*~~the *Corporation*, the *inter-dealer bond broker client* outside Canada and, if applicable, the *inter-dealer bond broker client's* affiliated *Dealer Member*,

(ii) an *inter-dealer bond broker client* outside Canada must state that it is carrying out its trading:

(a) in a jurisdiction in which it either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or

(b) from a jurisdiction in which ~~*IIROC*~~the *Corporation* is satisfied that one of the self-regulatory organizations specified in sub-clause 7305(7)(ii)(a) has jurisdiction over its trading activities,

(iii) an *inter-dealer bond broker client* outside of Canada must agree to give a *Dealer Member* its *domestic debt securities* trading activity information so that the *Dealer Member* can regularly report its aggregated trading to ~~*IIROC*~~the *Corporation* under ~~*IIROC*~~*Corporation requirements*,

(iv) if ~~*IIROC*~~the *Corporation* requests this information for a specific inquiry about *domestic debt securities* trading, the *inter-dealer bond broker client* outside Canada must agree to give it, subject to appropriate confidentiality provisions, additional information, and

(v) the agreement must adapt the requirements in clauses 7305(7)(i) through 7305(7)(iv) to the circumstances of the *inter-dealer bond broker client*.

(8) Commission schedule requirements:

(i) An *inter-dealer bond broker* must publish a commission schedule showing commissions charged for a trade.

(ii) An *inter-dealer bond broker* must not charge a commission greater than those listed in its commission schedule.

(iii) A change to an *inter-dealer bond broker's* commission schedule may be effective from the date the *inter-dealer bond broker* gives written notice to all its *inter-dealer bond broker clients*.

(9) Operating procedures manual and other requirements:

(i) An *inter-dealer bond broker* must have a current operating procedures manual and appropriate enforcement or compliance procedures to ensure its provisions are observed.

(ii) The *inter-dealer bond broker's* operating procedures manual must:

(a) have a code of ethics that includes the following:

(I) the *inter-dealer bond broker* will keep confidential all information received from or about its *inter-dealer bond broker clients* or their activities, unless that information must be disclosed for regulatory or compliance reasons,

(II) all *inter-dealer bond broker clients* will receive fair treatment, and

(III) the *inter-dealer bond broker* will not give to an *inter-dealer bond broker client's* partner, director, officer, employee, agent or shareholder or any *associate* of such *persons* any gift or other incentive to do business unless it is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest,

and

(b) describe the minimum capital requirements for its *inter-dealer bond broker clients* and the procedure to establish the requirements.

(iii) An approved *inter-dealer bond broker* must provide a copy of its operating procedures manual to each *inter-dealer bond broker client*.

(iv) The *inter-dealer bond broker* must give its *inter-dealer bond broker clients* two weeks prior written notice of any amendment to its operating procedures manual, unless ~~*IIROC*~~the *Corporation* approves a shorter notice period.

(10) An *inter-dealer bond broker* must give each of its *inter-dealer bond broker clients* a daily report that describes the net amount of outstanding deliveries and the total amount of outstanding deliveries that the *inter-dealer bond broker clients* had with every other *inter-dealer bond broker client* at the previous day's close of business in each of the following categories:

(i) *domestic debt securities*, with 10 years or less to maturity, issued or guaranteed by the Government of Canada or by a Canadian province or municipality,

(ii) *domestic debt securities* with more than 10 years to maturity, issued or guaranteed by the Government of Canada or a Canadian province or municipality,

(iii) *domestic debt securities* issued by a corporation, and

(iv) other *debt securities*, including *domestic debt securities* not in another category.

(11) An *inter-dealer bond broker* must file with ~~*IIROC*~~the *Corporation*:

(i) within 140 days of its financial year end, summary statement of financial position information and an auditor's report, prepared in accordance with generally accepted accounting principles, and

(ii) within 60 days of the interim-period date, interim semi-annual statement of financial position information prepared in accordance with generally accepted accounting principles.

(12) An *inter-dealer bond broker* must have its auditor confirm to ~~*IIROC*~~the *Corporation*, at least annually, that the *inter-dealer bond broker* has met ~~*IIROC*~~*Corporation requirements* for continued approval under Rule 7300. At a minimum, the confirmation must state the following:

> "In the course of our audit, nothing came to our attention that caused us to believe that the company held a position in securities for its own account or dealt with any person that is not eligible to be an inter-dealer bond broker client of the company under Rule 7300."

(13) The parties to an *inter-dealer bond broker client* agreement must agree that any disagreement between *inter-dealer bond broker clients*, or between an *inter-dealer bond broker client* and the *inter-dealer bond broker*, about who is responsible for a financial loss of less than $100,000 must go to arbitration under the Arbitrations Act (Ontario). The parties must agree that the following provisions govern any arbitration:

(i) Three arbitrators must resolve the disagreement. The arbitrators must be selected as follows:

(a) one arbitrator must be the Chair of ~~*IIROC*~~the *Corporation* Fixed Income Committee or, if the Chair is involved in the disagreement, the Chair's designate,

(b) the parties to the disagreement must unanimously agree on the selection of one arbitrator from among all ~~*IIROC*~~the *Corporation* approved *inter-dealer bond brokers* and their *inter-dealer bond broker clients*, and

(c) the parties must unanimously agree on the selection of one arbitrator who is unconnected to either an *inter-dealer bond broker client* or an *inter-dealer bond broker*. If the parties cannot unanimously agree, then a party may apply to have a judge select one or both arbitrators.

(ii) Subject to co-operation from the parties, the arbitrators must make their decision within two weeks of being notified in writing of their appointment. However, the parties may agree on a later notification date.

(iii) The parties may not appeal the arbitrators' award under the Arbitrations Act (Ontario).

PART C - CHANGES TO ~~IIROC~~Corporation REQUIREMENTS FOR INTER-DEALER BOND BROKERS

7306. Committee review

(1) ~~*IIROC*~~The *Corporation* must consult a committee comprised of representatives of parties to which Rule 7300 applies, including *Dealer Members*, *inter-dealer bond broker clients* outside of Canada, and approved *inter-dealer bond brokers*, before ~~*IIROC*~~the *Corporation* amends Rule 7300 or changes its interpretation of Rule 7300.

7307. – 7999. Reserved.

RULE 8100 | ENFORCEMENT INVESTIGATIONS

8101. Introduction

(1) Rule 8100 sets out the powers of ~~*IIROC*~~the *Corporation* to initiate and conduct enforcement *investigations* and the rights and obligations of *Regulated Persons* with respect to such *investigations*.

8102. Conducting investigations

(1) *Enforcement Staff* may investigate the conduct, business and affairs of a *Regulated Person* with respect to ~~*IIROC*~~*Corporation requirements*, *applicable laws,* or trading or advising in respect of securities, futures *contracts* or *derivatives*.

8103. Investigation powers

(1) In connection with an *investigation*, *Enforcement Staff* may, by written or electronic request, require a *Regulated Person*, an employee, partner, director or officer of a *Regulated Person*, an *approved investor*, or, where authorized by law, another *person* to:

(i) provide a written report with respect to any matter,

(ii) produce for inspection any *records* and documents in the *person's* possession or control *that Enforcement Staff* believe may be relevant to the *investigation*, whether written, electronically stored or recorded,

(iii) provide copies of any such *records* and documents in the manner and form, including *electronically* and recorded, that *Enforcement Staff* requests, and

(iv) attend and answer questions under oath or otherwise, and any such attendance may be *transcribed*, recorded electronically, audio-recorded or video-recorded, as *Enforcement Staff* determines.

(2) If Enforcement *Staff* requires production of original documents in a request made under subsection 8103(1), they must provide a receipt for any original documents received.

(3) In connection with an *investigation*, *Enforcement Staff:*

(i) may, with or without prior notice, enter the *business location* of any *Regulated Person* during business hours,

(ii) are *entitled* to free access to and to make and keep copies of all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and *records* of every description that *Enforcement Staff* believe may be relevant to the *investigation*, including by taking an image of the computer hard drives of the *Regulated Person*, and

(iii) may remove the original of any document or *record* obtained under clause 8103(3)(ii), and where an original document or *record* is removed from the premises, *Enforcement Staff* must provide a receipt for the removed document or *record*.

8104. Obligations of Regulated Persons and other persons

(1) A *person* who receives a request made under section 8103 must comply with the request within the time specified in it.

(2) If Enforcement *Staff* make a request under clause 8103(1)(i) or 8103(1)(iv) to a corporation, partnership or other organization, compliance with the request may be fulfilled by an employee of the corporation, partnership or organization who is acceptable to *Enforcement Staff,* taking into account the employee's position and knowledge.

(3) A person must cooperate with *Enforcement Staff* who are conducting an *investigation,* and a *Regulated Person* must require its employees, partners, directors and officers to cooperate with *Enforcement Staff* conducting an *investigation* and to comply with a request made under section 8103.

(4) A person who is aware that *Enforcement Staff* are conducting an *investigation* must not conceal or destroy any *record*, document or thing that contains information that may be relevant to the *investigation* or to any subsequent proceeding relating to the subject matter of the *investigation* or ask or encourage another *person* to do so.

(5) A Dealer *Member* or any *person* approved by, or under the jurisdiction of, ~~*IIROC*~~the *Corporation*, that is requested by a *Marketplace* to provide information in connection with an investigation of trading of a security on that *Marketplace* shall submit the requested records to the *Marketplace* making the request in such a manner and form, including electronically, as may reasonably be prescribed by such *Marketplace*.

8105. Right to counsel

(1) A person who attends in response to a request under clause 8103(1)(iv) may be represented by counsel.

8106. Confidentiality of investigations

(1) ~~IIROC~~The *Corporation* may make an order prohibiting a *person* from communicating, for a specified period, some or all of the following information related to an *investigation* to another *person* except the *person's* counsel or another *individual* who represents the *person* or as required by law:

(i) the nature or content of the *investigation* or a request under subsection 8103(1),

(ii) the fact *of* an entry by *Enforcement Staff* under subsection 8103(3),

(iii) the fact that any report, *record*, other document or thing was requested, produced, *provided*, inspected, copied or taken,

(iv) the *name* of any *person* required to attend and answer questions, or

(v) any questions asked or any answers given on an attendance.

(2) An order made under subsection 8106(1) shall not prohibit disclosure:

(i) of any fact that the *person* became aware of otherwise than as a result of the conduct of *the investigation*,

(ii) that is required to fulfill:

(a) any request made in connection with an *investigation*, but only to the extent necessary to respond to the request,

(b) an obligation of the *person* under ~~*IIROC*~~*Corporation requirements*,

(c) a fiduciary obligation of the *person* to a *Regulated Person*, or

(d) a contractual obligation of the *person* to comply with the policies of a *Regulated Person*,

(iii) of information in connection with the imposition of restrictions on a *person* who is a subject of the *investigation*, but only to the extent necessary to implement the *restrictions*, or

(iv) of the *existence* and nature of an *investigation* to:

(a) a *Regulated Person* who is the *person's* employer,

(b) an employee of a *Regulated Person* with supervisory authority over or compliance responsibility for the *person*, or

(c) employees of the *Regulated Person* who are senior to the employees contemplated in sub-clause 8106(2)(iv)(b), but only to the extent necessary to supervise the *person* or allow *officers* of a *Dealer Member* or other *Regulated Person* to inform their board of directors of an *investigation*.

(3) Notwithstanding an order made under subsection 8106(1), a *person* may disclose information, with the consent of a *hearing panel* on a motion under section 8413, if the *hearing panel* determines that disclosure of that information would not impede the conduct of the *investigation* and is otherwise justifiable, subject to any terms and conditions that the *hearing panel* considers appropriate.

8107. Continuing jurisdiction

(1) A *Regulated Person* remains subject to Rule 8100 for six years following the date on which they cease to be:

(i) a *Dealer Member,* or

~~(ii~~

(ii) a Dealer Member of the Investment Industry Regulatory Organization of Canada,

(iii) a non-*Dealer Member* user or subscriber of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider, or

(~~iii~~iv) a non-Dealer Member user or subscriber of a Marketplace for which the Investment Industry Regulatory Organization of Canada was the regulation services provider, or

(v) an *employee*, partner, *Director*, *officer* or any other representative designated in ~~*IIROC*~~the *Corporation requirements* of a *Dealer Member*, or

(~~iv)~~vi) an employee, partner, Director, officer or any other representative designated in the *Corporation requirements* of a Dealer Member of the Investment Industry Regulatory Organization of Canada, or

(vii) an employee, partner, director, officer or any other representative of a non-*Dealer Member* user or subscriber of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider, or

(viii) an employee, partner, director, officer or any other representative of a non-Dealer Member user or subscriber of a Marketplace for which the Investment Industry Regulatory Organization of Canada was the regulation services provider.

8108. – 8199. Reserved.

RULE 8200 | ENFORCEMENT PROCEEDINGS

8201. Introduction

(1) Rule 8200 sets out the authority of ~~*IIROC*~~the *Corporation* and *hearing panels* to hold *hearings* for enforcement purposes.

(2) Enforcement proceedings are intended to ensure compliance with and to enforce ~~*IIROC*~~*Corporation requirements*, *securities laws*, and other requirements relating to trading or advising in respect of securities, *futures contracts* or *derivatives*.

(3) Rule 8200 is divided into the following parts:

Part A - General

[sections 8203 through 8208]

Part B - Disciplinary proceedings

[sections 8209 through 8217]

8202. Definitions

(1) The following terms have the meaning set out below when used in Rule 8200:

"decision"	A determination made by a *hearing panel* under Rule 8200 and includes a *sanction* and other order or ruling.
"disciplinary hearing"	A *hearing* under Rule 8200, except for a *settlement hearing*.

PART A - GENERAL

8203. Hearings

(1) A *hearing* must be conducted in accordance with Rule 8200 and the *Rules of Procedure.*

(2) A *hearing panel* may hold any *hearing* and make any *decision* that is authorized under Rule 8200 and the *Rules of Procedure*.

(3) A *hearing panel* may admit as evidence in a *hearing* any oral testimony and any document or other thing that is relevant, whether or not given or proven under oath or affirmation or admissible as evidence in a court.

(4) A *hearing panel* may require testimony or other evidence to be given or proven under oath or affirmation.

(5) A *hearing* under Rule 8200 must be open to the public, unless it is:

(i) a *settlement hearing*, in which case it will be opened to the public only after a *settlement agreement* has been accepted by the *hearing panel*,

(ii) a *hearing* to consider a temporary order under section 8211,

(iii) a *hearing* or part of a *hearing* where the *hearing panel* is of the opinion that the desirability of avoiding disclosure of intimate, personal or other matters outweighs the desirability of allowing the *hearing* or part of the *hearing* to be open to the public, or

(iv) a *hearing* held in Québec where the *hearing panel*, on its own initiative or on the request of a *party*, orders the *hearing* or part of the *hearing* to be closed or prohibits the publication or release of documents in the interest of good morals or public order.

(6) A *party* to an enforcement proceeding may be represented by counsel or, where permitted by law, an agent.

(7) A hearing *panel* must provide written reasons for a *decision* made by it, including a *decision* accepting or rejecting a *settlement agreement* under section 8215, but not including an evidentiary or other procedural ruling, made in the course of a *hearing,* that is not dispositive of the issues raised in the *hearing*.

8204. Application and effective date of decisions

(1) A *decision* under Rule 8200 applies in all *Districts*, unless the *hearing panel* orders otherwise or unless the application of the *decision* is limited by law.

(2) A *decision*, other than a ruling in the course of a *hearing*, is effective on the date the *decision* is dated by the *National Hearing Officer*, unless Rule 8200 or the *decision* provides otherwise, in which case the *decision* is effective on the date so provided.

(3) A sanction, other than a fine or disgorgement, takes effect on the effective date of the *decision* imposing it, unless the *decision* provides otherwise.

(4) A fine, disgorgement and costs imposed by a *decision* are payable when the *decision* is effective, unless the *decision* provides or the *parties* agree otherwise.

8205. Commencement of enforcement proceedings

(1) ~~*IIROC*~~The *Corporation* may commence proceedings and hold *hearings*, as provided in Rule 8200, to ensure compliance with and to enforce ~~*IIROC*~~*Corporation requirements*, *securities laws,* and other requirements relating to trading or advising in respect of securities, *futures contracts* and *derivatives*.

(2) A proceeding under Rule 8200 must be commenced by notice of application or notice of *hearing* in accordance with the *Rules of Procedure*.

8206. Limitation

(1) A *Regulated Person* remains subject to Rule 8200 for six years following the date on which they cease to be:

(i) a *Dealer Member,* or

(ii) a Dealer Member of the Investment Industry Regulatory Organization of Canada,

(iii) a non-*Dealer Member*~~,~~

~~(ii) a non-Dealer *Member*~~ user or subscriber of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider, or

(~~iii~~iv) a non-Dealer Member user or subscriber of a Marketplace for which the Investment Industry Regulatory Organization of Canada was the regulation services provider, or

(v) an *employee*, partner, *Director*, *officer* or any other representative designated in ~~*IIROC*~~the *Corporation requirements* of a *Dealer Member*, or

~~(iv~~

(vi) an employee, partner, Director, officer or any other representative designated in the *Corporation requirements* of a Dealer Member of the Investment Industry Regulatory Organization of Canada, or

(vii) an employee, partner, director, officer or any other representative of a non-*Dealer Member* user or subscriber of a *Marketplace* for which ~~*IIROC* is~~the *Corporation* is the regulation services provider, or

(viii) an employee, partner, director, officer or any other representative of a non-Dealer Member user or subscriber of a Marketplace for which the Investment Industry Regulatory Organization of Canada was the regulation services provider.

(2) ~~*IIROC*~~The *Corporation* may commence a proceeding under Rule 8200 against a *Regulated Person* up to six years after the date of the occurrence of the last event on which the proceeding is based.

(3) If a proceeding is commenced within the limitation period in subsection 8206(1) or 8206(2), the respondent remains subject to the requirements of Rule 8200 until the proceeding, including any review or appeal, is completed.

8207. Amounts owing to ~~IIROC~~the Corporation

(1) A *person* remains liable to ~~*IIROC*~~the *Corporation* for all amounts owing to ~~*IIROC*~~the *Corporation*.

8208. Powers of compulsion

(1) A *hearing panel* may require a *Regulated Person,* an employee, partner, director or officer of a *Regulated Person* or ~~*IIROC*~~the *Corporation*, including ~~*IIROC*~~*Corporation* staff*,* and, if authorized by law, any other *person* to attend and give evidence or produce *records* and documents in connection with a *hearing* under Rule 8200.

(2) A Regulated *Person* must, upon receipt of an order of a *hearing panel* or a notice from the *National Hearing Officer* so requiring:

(i) attend and give evidence, and

(ii) produce for inspection and provide copies of any *records* or documents in the *Regulated Person's* possession or control.

(3) If a *hearing panel* requires an employee, partner, director or officer of a *Regulated Person,* who is not an *Approved Person,* to attend at a *hearing*, the *Regulated Person* must direct the individual to attend and give evidence.

PART B - DISCIPLINARY PROCEEDINGS

8209. Sanctions for Dealer Members

(1) If, after a *hearing*, a *hearing panel* finds that a *Dealer Member* has contravened ~~*IIROC*~~*Corporation requirements*, *securities laws*, or other requirement relating to trading or advising in respect of securities, *futures contracts*, or *derivatives*, the *hearing panel* may impose one or more of the following *sanctions*:

(i) a reprimand,

(ii) disgorgement of any amount obtained, including any loss avoided, directly or indirectly, as a result of the contravention,

(iii) a fine not exceeding the greater of:

(a) $5,000,000 for each contravention, and

(b) an amount equal to three times the profit made or loss avoided by the *Dealer Member*, directly or indirectly, as a result of the contravention,

(iv) suspension of *Membership* in ~~*IIROC*~~the *Corporation* or of any right or privilege associated with *Membership*, including a direction to cease dealing with clients, for any period of time and on any terms and conditions,

(v) imposition of any terms or conditions on the *Dealer Member's* continued *Membership*, including on access to a *Marketplace*,

(vi) expulsion from *Membership* and termination of the rights and privileges of *Membership*, including access to a *Marketplace*,

(vii) permanent bar to membership in ~~*IIROC*~~the *Corporation*,

(viii) appointment of a *Monitor*, and

(ix) any other *sanction* determined to be appropriate under the circumstances.

(2) A *Dealer Member* may be *sanctioned* under subsection 8209(1) based on the conduct of an employee, partner, *Director* or *officer*.

(3) A sanction imposed under subsection 8209(1) relating to access to a *Marketplace* applies to all *Marketplaces*.

8210. Sanctions for Regulated Persons other than Dealer Members

(1) If after a *hearing*, a *hearing panel* finds that an *Approved Person*, a non-*Dealer Member* user or subscriber of a *Marketplace* for which ~~*IIROC*~~the *Corporation* is the regulation services provider or an employee, partner, director or officer of such a user or subscriber has contravened ~~*IIROC*~~*Corporation requirements*, *securities laws*, or other requirement relating to trading or advising in respect of securities, *futures contracts*, or *derivatives*, the *hearing panel* may impose on such *person* one or more of the following *sanctions*:

(i) a reprimand,

(ii) disgorgement of any amount obtained, including any loss avoided, directly or indirectly, as a result of the contravention,

(iii) a fine not exceeding the greater of:

(a) $5,000,000 for each contravention, and

(b) an amount equal to three times the profit made or loss avoided by the *person*, directly or indirectly, as a result of the contravention,

(iv) suspension of the *person's* approval or any right or privilege associated with such approval, including access to a *Marketplace*, for any period of time and on any terms and conditions,

(v) imposition of any terms or conditions on the *person's* continued approval or continued access to a *Marketplace*,

(vi) prohibition of approval in any capacity, for any period of time, including access to a Marketplace,

(vii) revocation of approval,

(viii) a permanent bar to approval in any capacity or to access to a *Marketplace*,

(ix) a permanent bar to employment in any capacity by a *Regulated Person*, and

(x) any other *sanction* determined to be appropriate under the circumstances.

(2) A sanction imposed under subsection 8210(1) relating to access to a *Marketplace* applies to all *Marketplaces*.

(3) A director or officer of a *Regulated Person* may be *sanctioned* under subsection 8210(1) based on the conduct of the *Regulated Person* with which he or she is associated.

(4) A Regulated *Person* must not employ, hire, retain, or otherwise engage, in any capacity, a *person* who is *sanctioned* under clause 8210(1)(ix).

8211. Temporary orders

(1) On application by *Enforcement Staff,* if a *hearing panel* is satisfied that the length of time required to conclude a *hearing* could be prejudicial to the public interest, the *hearing panel* may, without notice to the *respondent*, make a temporary order that suspends or restricts a *Regulated Person's* rights and privileges and may impose terms and conditions that the hearing *panel* considers appropriate.

(2) A temporary order that is made without notice under subsection 8211(1) expires 15 days after the date on which it is made, unless:

(i) a *hearing* is commenced within that period to confirm or set aside the temporary order,

(ii) the *Regulated Person* consents to an extension of the temporary order, or

(iii) a securities *regulatory authority* orders otherwise.

(3) ~~IIROC~~The *Corporation* must immediately give written notice of a temporary order under subsection 8211(1) to every *person* directly affected by it.

8212. Protective orders

(1) On application by *Enforcement Staff*, a *hearing panel* may hold a *hearing* to consider a request for an order under subsection 8212(4), following notice to the *respondent* in accordance with subsection 8426(1).

(2) After a *hearing* under this section with respect to a *Dealer Member*, a *hearing panel* may make one or more of the orders set out in subsection 8212(4), if it finds that:

(i) the *Dealer Member* or a parent corporation or control person of the *Dealer Member* has made a general assignment for the benefit of creditors or an authorized assignment or proposal to its creditors, has been declared bankrupt, or is the subject of a winding-up order, an application under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended, or similar legislation or an application for its liquidation or dissolution,

(ii) a receiver or receiver-manager has been appointed in respect of all or part of the Dealer *Member's* undertaking or property or all or part of the undertaking or property of a parent corporation or control person of the *Dealer Member*,

(iii) the *Dealer Member* has tendered its resignation, is not carrying on business as an investment dealer or is in the process of winding up or terminating its business as an investment dealer,

(iv) the *Dealer Member's* registration as a dealer under *securities laws* has lapsed or been suspended or terminated,

(v) a *securities regulatory authority*, *Marketplace*, *SRO* or clearing agency has suspended the *Dealer Member's* membership or privileges,

(vi) the *Dealer Member* has been convicted of contravening a law relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading,

(vii) the Dealer *Member's* continued operation would create a risk of imminent harm to its clients, investors, other *Regulated Persons* or ~~*IIROC*~~the *Corporation* because the *Dealer Member:*

(a) is in financial or operating difficulty, or

(b) has failed to cooperate in respect of an *investigation*, or

(viii) the *Dealer Member* has not complied with terms or conditions of a *sanction* or a prohibition under Part B of Rule 4100 (early warning level 2) to which it is subject.

(3) After a *hearing* under this section with respect to a *Regulated Person*, other than a *Dealer* Member, a *hearing panel* may make one or more of the orders set out in subsection 8212(4), if it finds that:

(i) the *person's* registration under *securities laws* has lapsed or been suspended or terminated,

(ii) a *securities regulatory authority* has made an order prohibiting the *person* from trading in securities, acting as a director or officer of a market participant or as a promoter, or engaging in investor relations activities, or has denied the *person* the use of an exemption under *securities laws,*

(iii) a *Marketplace*, *SRO* or clearing agency has suspended the *person* or the *person's* privileges,

(iv) the *person* has been convicted of contravening a law relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading,

(v) the *person's* continued approval would create a risk of imminent harm to clients, investors, other *Regulated Persons* or ~~*IIROC*~~the *Corporation* because the *person* has failed to cooperate in respect of an *investigation*, or

(vi) the *person* has not complied with terms or conditions of a *sanction* to which the *person* is subject.

(4) After a *hearing* under this section, a *hearing panel* may make an order:

(i) suspending membership, approval or access to a *Marketplace* on any terms and conditions,

(ii) with terms and conditions, requiring a *Dealer Member* that is suspended under this section to take steps to facilitate the orderly transfer of its client accounts to another *Dealer Member*,

(iii) imposing terms and conditions on continued membership, approval or access to a *Marketplace*,

(iv) directing immediate cessation of any or all dealing with clients or any other *persons*,

(v) expelling a Dealer *Member* from ~~*IIROC*~~the *Corporation* and terminating the rights and privileges of *Membership*,

(vi) revoking approval or access to a *Marketplace*, or

(vii) appointing a *Monitor* over a *Dealer Member's* business and affairs.

(5) A *person* may request, in writing, a review by a *hearing panel* of a *decision* made after a hearing under this section, within 30 days after the effective date of the *decision*.

(6) A *hearing* shall be held as soon as practicable, and no later than 21 days, after a review is requested under subsection 8212(5), unless the *person* requesting the review and *Enforcement Staff* agree otherwise.

(7) A member of a *hearing panel* whose *decision* is the subject of a review under this section may not be a member of the *hearing panel* on the review.

(8) A *hearing panel* may stay an order made under subsection 8212(4), subject to any terms and conditions it considers appropriate.

(9) On a review under this section, a *hearing panel* may:

(i) affirm the order,

(ii) quash the decision,

(iii) vary the decision or order, or

(iv) make any order authorized by subsection 8212(4).

8213. Monitor

(1) If a *hearing panel* appoints a *Monitor* under section 8209 or section 8212 with respect to the business and affairs of a *Dealer Member*, the *Monitor* has authority to supervise and monitor the *Dealer Member's* business and affairs in accordance with the terms and conditions imposed by the *hearing panel*.

(2) A hearing *panel* may impose any terms and conditions, and any time periods, on a *Monitor's* authority with respect to a *Dealer Member's* business and affairs that the *hearing panel* considers appropriate, including authority to:

(i) enter the *Dealer Member's* premises and conduct day-to-day monitoring of the *Dealer Member's* business activities,

(ii) monitor and review accounts receivable, accounts payable, client accounts, margin, client free credits, banking arrangements and transactions, trading conducted by the *Dealer Member* for clients and for its own account, payment of debts, creation of new debt and the *Dealer Member's* books and *records*,

(iii) make copies of any *records* or other documents and provide copies of such *records* and documents to ~~*IIROC*~~the *Corporation* or any other regulatory or self-regulatory authority,

(iv) report the *Monitor's* findings or observations, on an ongoing or other basis, to ~~*IIROC*~~the *Corporation* or any other regulatory or self-regulatory authority,

(v) monitor the *Dealer Member's* compliance with any terms or conditions imposed on the Dealer *Member* by ~~*IIROC*~~the *Corporation* or any other regulatory or self-regulatory authority or by the *hearing panel*, including compliance with any early warning terms and conditions,

(vi) verify and assist with the preparation of any regulatory filings, including the calculation of *risk* adjusted *capital*,

(vii) conduct or have conducted an appraisal of the *Dealer Member's* net worth or a valuation of any of the *Dealer Member's* assets,

(viii) assist the *Dealer Member's employees* in facilitating the orderly transfer of the *Dealer* Member's client accounts, and

(ix) pre-authorize cheques issued or payments made by or on behalf of the *Dealer Member* or distribution of any of the *Dealer Member's* assets.

(3) A *Dealer Member* must cooperate with the *Monitor*, require its *employees*, partners, *Directors* and *officers* to cooperate with the *Monitor* and take all reasonable steps to have its *affiliates* and service providers cooperate with the *Monitor* with respect to the exercise by the *Monitor* of its authority under this section.

(4) The Dealer *Member* must pay all expenses relating to a *Monitor* appointed to monitor the *Dealer Member's* business and affairs, including the *Monitor's* fees.

(5) ~~IIROC~~*Corporation* staff, a *Monitor*, or a *Dealer Member* subject to a *Monitor* may at any time apply to a *hearing panel* for directions concerning the *Monitor's* authority or the conduct of the *Monitor's* activities.

(6) On an application under subsection 8213(5), a *hearing panel* may make any order it considers appropriate.

8214. Costs

(1) After a *hearing* under Rule 8200, other than a *hearing* under section 8211, a *hearing panel* may order a *person* who is the subject of a *sanction* to pay any costs incurred by or on behalf of ~~*IIROC*~~the *Corporation* in connection with the *hearing* and any *investigation* related to the *hearing*.

(2) Costs ordered under subsection 8214(1) may include:

(i) costs for time *spent* by ~~*IIROC*~~*Corporation* staff,

(ii) fees paid by ~~*IIROC*~~the *Corporation* for *legal* or accounting services or for services rendered by an expert witness,

(iii) witness fees and *expenses*,

(iv) costs of recording and *transcribing* evidence and preparation of transcripts, and

(v) disbursements, *including* travel costs.

8215. Settlements and settlement hearings

(1) Enforcement *Staff* may agree in a *settlement agreement* to settle a proceeding or proposed proceeding against a *Regulated Person* at any time prior to the conclusion of a *disciplinary hearing*.

(2) A settlement *agreement* must contain:

(i) a statement of the *contraventions* agreed to by the *respondent,* with references to the relevant ~~*IIROC*~~*Corporation requirements* and *applicable laws,*

(ii) the agreed *facts*,

(iii) the *sanctions and* costs to be imposed on the *respondent,*

(iv) a waiver by the *respondent* of all rights to any further *hearing*, appeal and review,

(v) a provision *that Enforcement Staff* will not initiate any further action against the *respondent* in relation to the matter addressed in the *settlement agreement*,

(vi) a provision that *the settlement agreement* is conditional on acceptance by a *hearing panel*,

(vii) a provision that the *settlement agreement* and its terms are confidential, unless and until it has *been* accepted by a *hearing panel*,

(viii) a provision that the *parties* will not make any public statement that is inconsistent with the *settlement agreement*, and

(ix) any other *provisions* not inconsistent with clauses 8215(2)(i) through 8215(2)(viii) that the *parties* agree to include in the *settlement agreement*.

(3) Discussions relating to settlement are on a without prejudice basis to *Enforcement Staff* and any other *person* participating in the discussions and must not be used as evidence or referred to in any proceeding.

(4) A *settlement agreement* may impose any obligations on a *respondent* to which the *respondent* agrees, whether or not they could be imposed by a *hearing panel* under Rule 8200.

(5) After a *settlement hearing*, a *hearing panel* may accept or reject a *settlement agreement*.

(6) A *settlement agreement* becomes effective and binding on the *parties* to it upon acceptance by a hearing *panel*.

(7) If a *settlement agreement* is accepted by a *hearing panel*, any *sanction* imposed under it is deemed to have been imposed under Rule 8200.

(8) If a *settlement agreement* is rejected by a *hearing panel*,

(i) *either*:

(a) the *parties* may agree to enter another *settlement agreement*, or

(b) *Enforcement Staff* may proceed to a *disciplinary hearing* based on the same or related allegations and charges,

and

(ii) the *hearing panel's* reasons for rejecting the *settlement agreement* must be made available to a *hearing panel* considering a subsequent *settlement agreement* based on the same or related allegations and charges, but must not be made public or referred to in a subsequent *disciplinary hearing*.

(9) A member of a *hearing panel* that rejects a *settlement agreement* may not be a member of a hearing *panel* that considers a subsequent *settlement agreement* or conducts a *disciplinary hearing* based on the same or related allegations.

8216. Failure to pay fine or costs

(1) If a *Regulated Person* does not pay a fine, costs or other amount ordered to be paid by a *hearing panel* or required to be paid under a *settlement agreement*, ~~*IIROC*~~the *Corporation* may, seven *days* after sending written notice, summarily suspend the *Membership* of the *Regulated Person* and all rights and privileges of the *Regulated Person* relating to approval or access to a Marketplace, until the fine, costs or other amount has been paid.

8217. Review by a securities regulatory authority

(1) A *party* to a proceeding under Rule 8200 may apply to the *securities regulatory authority* in the relevant *District* for review of a final *decision* in the proceeding.

(2) A person who is entitled to request a review of a *decision* under section 8212 or is the subject of a *decision* making a temporary order under section 8211 may not apply to a *securities regulatory authority* for review of the *decision*, unless the *person* has requested a review or other *hearing* by a *hearing panel* and the *hearing panel* has made a final *decision*.

(3) For purposes of subsection 8217(1), *Enforcement Staff* is directly affected by a *decision* in a proceeding in which *Enforcement Staff* is a *party*.

8218. – 8299. Reserved.

RULE 8300 | HEARING COMMITTEES

8301. Introduction

(1) Rule 8300 requires a *hearing committee* in each *District* from which *hearing panels* must be selected for enforcement and other proceedings and sets out the process for appointing and removing members of *hearing committees*.

8302. Definitions

(1) The following terms have the meaning set out below when used in Rule 8300:

"~~Corporate Governance~~ Appointments Committee" ~~"public member nominating committee"~~	~~The Corporate~~ A committee composed of: (i) four members of the Governance Committee established by the *Board*~~.~~, including its Chair as set out in General By-law No.1, section 12.2, ~~In each *District*, a committee composed of the chair of the *Corporate Governance Committee*, the chair of the *District Council* and the *President*.~~ (ii) two Non-Independent Directors of the *Board* as set out in General By-law No.1, section 1.1, and (iii) the President of the *Corporation* as set out in General By-law No. 1, section 1.1.

8303. District Hearing ~~committees~~Committees

(1) A *hearing committee* must be appointed for each *District*.

(2) A member of a *hearing committee* of a *District* must reside in the *District*.

(3) Two thirds of the members of a *hearing committee*, to the extent practicable, must be *industry members*.

(4) One third of the members of a *hearing committee*, to the extent practicable, must be *public members*.

(5) The chair of a *hearing committee* must be a *public member*.

8304. Nominations

(1) ~~A *District Council*~~The *Corporation* must nominate *individuals* to be *public members* and *industry members* of the *hearing committee* in ~~its~~each *District*.

~~(2) A *Marketplace Member* must nominate *individuals* to be *industry members* of the *hearing committee* in a *District* in which the *Marketplace Member:*~~

~~(i) is recognized or exempt from recognition as an exchange or Quotation and Trade Reporting System under *securities laws*, or~~

~~(ii) if an Alternative Trading System, is registered under *securities laws*.~~

~~(3) The *public member nominating committee* in each *District* must nominate *individuals* to be *public members* of the *hearing committee* in the *District*.~~

~~(4) To the extent practicable, two thirds of the *individuals* who are nominated in a *District* must be nominated by a *District Council* or a *Marketplace Member* and one third must be nominated by the *public member nominating committee*.~~

8305. Appointment

(1) The ~~*Corporate Governance*~~*Appointments Committee* must appoint to the *hearing committee* of each *District* a number of suitable and qualified *individuals* sufficient to conduct *hearings* in the *District*.

(2) In considering the suitability and qualifications of an *individual* who is nominated for membership on a *hearing committee*, the ~~*Corporate Governance*~~*Appointments Committee* must take into account the *individual's:*

(i) general knowledge of business practices and *securities laws*,

(ii) experience,

(iii) regulatory background,

(iv) availability for *hearings*,

(v) reputation in the securities industry,

(vi) ability to conduct *hearings* in French or English, and

(vii) ~~*Districts* in which *individuals* would be entitled~~eligibility to serve in a particular *District*.

(3) An individual who:

(i) is currently or has been within the previous eighteen months an employee of a *Member,* a *Regulated* Person*,* or an *affiliate* of a *Member* or *Regulated Person*,

(ii) represents any parties to enforcement or other proceedings under ~~*IIROC*~~*Corporation requirements* or any *person* in connection with ~~*IIROC*~~*Corporation requirements*, or

(iii) would otherwise raise a reasonable apprehension of bias with respect to matters that may come before a *hearing panel*,

is not eligible for appointment or membership as a *public member* of a *hearing committee*.

(4) The ~~*Corporate Governance*~~*Appointments Committee* must appoint a chair of each *hearing committee*.

8306. Term of appointment

(1) Appointment of an *individual* to a *hearing committee* is for a three-year term.

(2) A hearing *committee* member may be reappointed to successive terms.

(3) If a *hearing committee* member's term expires without reappointment during a *hearing* in which the member is serving on the *hearing panel*, the member's term is extended automatically until the completion of the *hearing* or if the *hearing* is a *hearing* on the merits, the proceeding.

8307. Removal

(1) The ~~*Corporate Governance*~~ *Appointments Committee* may remove a *hearing committee* member who:

(i) ceases to reside in the *hearing committee's District*,

(ii) is precluded from acting as a *hearing committee* member by a law applicable in the *District*,

(iii) in the ~~*Corporate Governance*~~*Appointments Committee's* opinion, will raise a reasonable apprehension of bias with respect to matters that may come before a *hearing panel*, or

(iv) for any other reason, ceases to be suitable or qualified to be a *hearing committee* member.

(2) An individual who is removed by the ~~*Corporate Governance*~~*Appointments* *Committee* must not continue to serve on a *hearing panel* in any proceeding.

8308. – 8399. Reserved.

RULE 8400 | RULES OF PRACTICE AND PROCEDURE

8401. Introduction

(1) The *Rules of Procedure* set out the rules that govern the conduct of ~~*IIROC*~~the *Corporation's* enforcement proceedings and regulatory review *hearings* to secure fair and efficient proceedings and just determinations.

(2) Rule 8400 is divided into the following parts:

Part A - General

[sections 8403 through 8413]

Part B - Enforcement proceedings

[sections 8414 through 8429]

Part C - Regulatory review hearings

[section 8430]

Part D - Securities regulatory authority review

[section 8431]

8402. Definitions

(1) The following terms have the meaning set out when used in Rule 8400:

"application"	An application that commences a proceeding under Rule 8200 and includes an application for a temporary order or a protective order.
"commencing notice"	A notice of *hearing*, notice of *application*, notice of motion, notice of *prehearing conference* and notice of request for review.
"decision"	A determination made by a *hearing panel*.
"document"	Includes a record, sound recording, videotape, film, photograph, chart, graph, map, plan, survey, book of account, and information recorded or stored by means of any electronic or other device.
"electronic hearing"	A *hearing* held by conference telephone or another form of electronic technology that allows persons to hear one another.
"file"	A file with the *National Hearing Officer* in accordance with section 8406.
"oral hearing"	A *hearing* at which the parties or their counsel or agents attend before a *hearing panel* in person.
"prehearing conference"	A prehearing conference held pursuant to section 8416.
"regulatory decision"	A decision made under sections 9204, 9206 or 9207 or Part B of Rule 4100.
"requesting party"	A *person* who requests a review *hearing* under sections 8427 or 8430.
"responding party"	A *person* responding to a motion or to a request for a review *hearing* under sections 8427 or 8430.
"written hearing"	A *hearing* held by means of an exchange of documents, whether in hard copy or by electronic means.

PART A - GENERAL

8403. General principles

(1) The *Rules of Procedure* shall be interpreted and applied to secure a fair *hearing* and just determination of a proceeding on its merits and the most expeditious and least expensive conduct of the proceeding.

(2) No proceeding, *document* or *decision* in a proceeding is invalid by reason of a defect or other irregularity in form.

(3) Subject to a requirement in the *Rules of Procedure*, a *hearing panel* has authority to control the process of a proceeding before it and may exercise any of its powers on its own initiative or at the request of a *party*, including:

(i) issuing procedural directions or orders with respect to the application of the *Rules of Procedure* in respect of any proceeding,

(ii) imposing *terms* or conditions in a direction or order,

(iii) admitting or requiring presentation of evidence on oath, affirmation or otherwise,

(iv) waiving or varying any *Rule of Procedure* in respect of a proceeding,

(v) requiring *parties* to *file documents* electronically, and

(vi) at the request of a *party*, making an interim *decision* or order, including a *decision* or order *that* is subject to terms and conditions.

(4) At the request of a *party*, a *hearing panel* may provide for any procedural matter that is not provided for in ~~*IIROC*~~the *Corporation requirements* or the *Rules of Procedure* by analogy to the *Rules of Procedure* or by reference to the rules of practice or procedure of another *SRO* or professional association or to the rules applicable to a *securities regulatory authority.*

8404. Time

(1) When computing time under the *Rules of Procedure*:

(i) the number of days between two events are counted by excluding the day on which the first event occurs and including the day on which the second event occurs,

(ii) if a *period* of less than seven days is prescribed, only *business days* are to be counted,

(iii) if the time for doing an act expires on a day that is not a *business day*, the act may be done on *the* next *business day*, and

(iv) a document that is served or filed after 4 p.m. in the time zone of the recipient is deemed *to* have been served or filed on the next *business day*.

(2) A time period prescribed by the *Rules of Procedure* may be extended or abridged:

(i) before *its* expiration, on consent of the *parties,* or

(ii) before *or* after its expiration, by a *hearing panel* on any terms and conditions the *hearing panel* considers appropriate.

8405. Appearance and representation

(1) A *party* in a proceeding may be self-represented or may be represented by counsel or an agent.

(2) A self-represented *party* must *file* and keep current during a proceeding the *party's* address, telephone number, facsimile number and email address, as applicable.

(3) A person who appears as counsel or agent for a *party* in a proceeding must *file* and keep current during the proceeding the *person's* address, telephone number, facsimile number and email address, as applicable, and the name and address of the *party* represented.

(4) A party who is represented by counsel or an agent may:

(i) change the counsel or agent by serving on the counsel or agent and on every other *party*, and *filing*, a notice of change giving the name, address, telephone number, facsimile number and email address of the new counsel or agent, as applicable, or

(ii) elect to act in person by serving on the counsel or agent and on every other *party,* and *filing*, a *notice* of intention to act in person, giving the *party's* address, telephone number, facsimile number and email address, as applicable.

(5) A *party* who appoints a new counsel or agent in the course of a proceeding must comply with clause 8405(4)(i).

(6) Counsel or an agent for a *party* may withdraw as counsel or agent by serving on the *party* and other *parties* and *filing* a written notice of withdrawal.

(7) If counsel or an agent for a *party* seeks to withdraw as counsel or agent less than 30 days prior to the date on which a matter is scheduled to be heard by a *hearing panel*, the counsel or agent may withdraw only with leave of the *hearing panel* obtained on a motion.

(8) Where a *party* is represented by counsel or an agent:

(i) *documents* served on the *party* must be served on the *party's* counsel or agent, unless the *Rules of Procedure* require otherwise,

(ii) *communications* with the *party* must be with the *party's* counsel or agent, and

(iii) *the party* must address a *hearing panel* through the *party's* counsel or agent.

8406. Service and filing

(1) A document required to be served under the *Rules of Procedure* must be served on all *parties* to the proceeding.

(2) A notice of *hearing* under section 8414, a notice of *application* under section 8425 or 8426, a notice of request for review from a *decision* made under Rule 9200 and a *decision* of a *hearing panel* on the merits of such a proceeding that is served on an *Approved Person* must, for information purposes, be sent concurrently to the *Dealer Member* that employs the *Approved Person*.

(3) Subject to subsection 8406(4), a *document* required to be served must be served by one of the following methods:

(i) personal *delivery* to the *party*,

(ii) delivery to *the party's* counsel or agent,

(iii) delivery to an adult person at the *party's* place of residence, employment or business or the *place* of business of the *party's* counsel or agent,

(iv) if the *party* is a corporation, delivery to an officer, director or agent of the corporation or a *person* at any place of business of the corporation who appears to be in control or management *of* the place of business,

(v) if the *party* is a partnership, delivery to a partner or a *person* at any place of business of the *partnership* who appears to be in control or management of the place of business,

(vi) mail or *courier* to the last known address of the *party* or the *party's* counsel or agent,

(vii) electronic transmission to the facsimile number or e-mail address of the *party* or the *party's counsel* or agent, or

(viii) by any *other* means authorized by a *hearing panel*.

(4) A notice of *hearing* and a notice of *application* must be served by:

(i) personal *delivery* to the *party*,

(ii) registered *mail* to the *party's* last known address,

(iii) delivery to *the party's* counsel or agent, with the consent of counsel or the agent,

(iv) any other *method* set out in subsection 8406(3) to which the *party* consents, or

(v) any other *means* authorized by a *hearing panel*.

(5) Service of a *document* is deemed to be effective, when delivered no later than 4 p.m. in the time zone of the recipient:

(i) by delivery, on the day of delivery,

(ii) by mail, on the fifth day after mailing,

(iii) *electronically*, on the day of transmission,

(iv) by courier, on the earlier of the day noted on the delivery receipt or the second day after the *day* on which it was given to the courier, or

(v) by any other means authorized by a *hearing panel*, on the day the *document* is served by the *means* so authorized.

(6) Service of a *document* may be proved by an affidavit of the *person* who served it.

(7) A *document* required to be *filed* under the *Rules of Procedure* must be *filed* by delivering or sending by mail, courier or facsimile transmission four copies of the *document*, with proof of service, to the *National Hearing Officer* at ~~*IIROC*~~the *Corporation's* offices in the *District* in which the proceeding is conducted.

(8) The *National Hearing Officer* may:

(i) require *more* or permit fewer than four copies of a *document* to be *filed*, and

(ii) permit or require *filing* of a *document* by e-mail, provided that the *party* also *files* four printed *copies* forthwith.

(9) A party who serves or *files* a *document* must include with it:

(i) the *party's* name, address, telephone number, facsimile number and e-mail address, as *applicable*, or

(ii) if the *party* is represented by counsel or an agent, the name, address, telephone number, facsimile number and e-mail address of the *party's* counsel or agent,

(iii) the name of the proceeding to which the *document* relates, and

(iv) the name of *each party*, counsel or agent served with the *document*.

(10) Subject to ~~*IIROC*~~*Corporation requirements*, a *document* that is *filed* must be made available by the *National Hearing Officer* for public inspection in the office in which the *document* is filed during ~~IIROC~~the *Corporation's* normal business hours, unless confidentiality is requested and a *hearing panel* applying the standard in clause 8203(5)(iii) or 8203(5)(iv) orders otherwise.

8407. National Hearing Officer

(1) The National Hearing Officer administers all proceedings brought pursuant to the *Rules of Procedure*, including:

(i) the selection of members of *hearing panels*,

(ii) scheduling and *arranging hearings* and *prehearing conferences*,

(iii) care, custody *and* distribution to members of *hearing panels* of *filed documents*,

(iv) maintaining a *hearing* record, including original exhibits,

(v) dating and *distributing* written *hearing panel decisions* and reasons to *parties* to a proceeding,

(vi) issuing and serving a notice or summons to attend and testify or produce *documents*, where *so* authorized by a *decision* of a *hearing panel*, and

(vii) any *other* administrative functions that are reasonably necessary for the efficient conduct of a proceeding.

(2) The *National Hearing Officer* acts as liaison between members of a *hearing panel* and *parties* to a proceeding and, other than in the course of an *oral hearing* or *electronic hearing*, a *party* must communicate to a *hearing panel* through the *National Hearing Officer* and serve all other *parties* with the communication.

(3) The *National Hearing Officer* may seek the advice of the chair of a *hearing committee* with respect to legal, administrative or procedural issues.

(4) The *National Hearing Officer*, after consultation with the chairs of the *hearing committees* in all *Districts*, may publish on ~~*IIROC*~~the *Corporation's* website guidelines concerning practices to be followed under the *Rules of Procedure*.

(5) The National Hearing Officer may prescribe the form and format of *documents* and forms that are required to be *filed* under the *Rules of Procedure*.

(6) The *National Hearing Officer* may designate *individuals* to perform the functions for which the *National Hearing Officer* is responsible under the *Rules of Procedure*.

8408. Hearing panels

(1) The *National Hearing Officer* is responsible for the selection of members of a *hearing* panel from members of a *hearing committee*.

(2) In connection with the selection of a *hearing panel*, the *National Hearing Officer* may consult with or seek the advice of the chair of a *hearing committee*.

(3) For a *hearing* under sections 8209, 8210, 8215 or Rule 9300, the *National Hearing Officer* must, subject to subsections 8408(4) and 8408(6), select two *industry members* and one *public member* from the *hearing committee* of the applicable *District* as members of the *hearing* panel.

(4) If the chairs of both *hearing committees* consent, the *National Hearing Officer* may select a member of a *hearing committee* in one *District* to serve on a *hearing panel* in another *District*, but a *hearing panel* that considers a matter that relates to conduct in Québec must have a majority of members who reside in Québec.

(5) The *National Hearing Officer* must appoint a *public member* as the chair of a *hearing panel*, and if the matter relates to conduct in Québec, the chair must be a *public member* of the *hearing committee* in the Québec *District*.

(6) The *National Hearing Officer* may appoint a one-member *hearing panel* consisting of a *public member* of a *hearing committee* in a proceeding under section 8211 or section 8212, a motion or *prehearing conference*, or to act as case manager of a proceeding.

(7) The *National Hearing Officer* must not select an *individual* to be a member of a *hearing panel*, if the *individual:*

(i) is an officer, partner, director, employee or *associate* of, or is providing services to, a *party* or if a *party* is an *affiliate*, *associate* or employee of another *person* with whom the *individual* is in such a relationship,

(ii) has or had another relationship to a *party* or matter that may create a reasonable *apprehension* of bias,

(iii) is precluded from acting as a member of the *hearing panel* by ~~*IIROC*~~*Corporation requirements*, any law applicable in the *District* in which the *hearing* is held or by the recognition order or registration under *securities laws* of a *Marketplace* whose rules are the subject of the *hearing*, or

(iv) was consulted by or advised the *National Hearing Officer* in connection with the *selection* of the *hearing panel*.

(8) The National Hearing Officer may not select an *individual* who is a member of a *hearing panel* in a proceeding under sections 8211 or 8212 as a member of a *hearing panel* on a subsequent *hearing* relating to the same matter, including a motion for a stay of a *sanction* imposed under section 8212, unless all *parties* consent to the selection of the member.

(9) The National Hearing Officer may not select a member of a *hearing panel* who participates in a *prehearing conference* or who case manages a proceeding to be a member of the *hearing panel* on the merits, unless all *parties* consent to the selection of the member.

(10) If a member of a *hearing panel* becomes unable to continue to serve as a member of the hearing *panel* for any reason, the remaining members may continue to hear the matter and render a *decision*, but only with the consent of all *parties*, and if neither of the remaining members is the chair, the *hearing panel* may retain its own legal counsel to advise it on legal and procedural issues, but not on the merits of the proceeding.

(11) A decision of a *hearing panel* must be made by a majority of its members, and if the *hearing panel* consists of two members, must be unanimous.

8409. Form of hearings

(1) Subject to subsections 8409(2) through 8409(9), a *hearing panel* may conduct a *hearing* as an *oral* hearing, *electronic hearing* or *written hearing*.

(2) Subject to subsections 8409(3) through 8409(9), a *written hearing* may be held only for:

(i) a motion relating to procedural issues,

(ii) a *hearing* on agreed facts, and

(iii) any other motion or *hearing* that a *hearing panel* considers appropriate.

(3) In determining whether to hold a *hearing* as an *oral hearing*, *electronic hearing* or *written hearing*, a *hearing panel* may consider any relevant factors, including:

(i) the nature of the *hearing*, the subject matter of the *hearing*, and the issues to be *addressed*, including whether they are issues of fact, law or procedure,

(ii) the *evidence* to be presented, including whether facts are in dispute and credibility is an issue,

(iii) the cost, efficiency and timeliness of the *hearing* or the proceeding,

(iv) the *fairness* of the *hearing* process to, and the convenience of, each of the *parties*, and

(v) *accessibility* to the public.

(4) A party may request an *electronic hearing* or *written hearing* in a *commencing notice*.

(5) If an *electronic hearing* or *written hearing* is requested:

(i) in a notice of *hearing*, a *party* may object to the requested form of *hearing* in the *party's response* or by bringing a motion,

(ii) in a *commencing notice* other than a notice of *hearing*, a *party* may object to the *requested* form of *hearing* by serving and *filing* a notice of objection within three days after the *commencing notice* is served on the *party*.

(6) A notice of objection must state the reasons for the objection, including any prejudice the requested form of *hearing* may cause the *party* and the facts on which the *party* relies and may be accompanied by any evidence on which the *party* relies for the objection.

(7) A hearing *panel* that receives a notice of objection may:

(i) accept the objection and refer the matter to the *National Hearing Officer* to set a date for an *oral hearing* or, with the consent of all *parties*, set a date for an *electronic hearing* or *schedule* for a *written hearing*,

(ii) reject the objection, or

(iii) order a *written hearing* to consider the objection and provide other *parties* an opportunity to respond to the notice of objection in a manner and time that the *hearing panel* directs.

(8) If a notice of objection is filed, the *hearing panel* must render its *decision* on the form of *hearing* in writing as expeditiously as possible, taking into consideration the date and nature of the *hearing* and proceeding and the needs of the *parties* to present evidence and prepare and serve submissions and responding submissions.

(9) Unless a *party* objects, a *hearing panel* may, on its own motion, at any stage of a proceeding make an order continuing:

(i) an *electronic hearing* or *written hearing* as an *oral hearing*,

(ii) an *oral hearing* or a *written hearing* as an *electronic hearing*, and

(iii) an *oral hearing* or an *electronic hearing*, as a *written hearing*.

(10) A hearing *panel* that orders an *electronic hearing* may require one or more of the *parties*

(i) to make *the* arrangements for the *hearing*, and

(ii) to pay all *or* part of the costs of conducting the *hearing* as an *electronic hearing*.

8410. Hearing panel decisions

(1) A decision of a *hearing panel* and the reasons for the *decision* must be dated by the *National Hearing Officer* and served on each *party* in accordance with subsection 8406(3).

(2) ~~*IIROC*~~The *Corporation* must publish on its website a summary of the *decision* of a *hearing panel*, except a *decision* in a *prehearing conference*, containing:

(i) ~~*IIROC*~~*Corporation requirements* or *applicable laws* that have been contravened,

(ii) the essential facts,

(iii) the *decision*, including any *sanction* and costs, and

(iv) except where the *decision* rejects a *settlement agreement*, a statement that a copy of the *decision* may be obtained on ~~*IIROC*~~the *Corporation's* website.

(3) ~~*IIROC*~~The *Corporation* must publish on its website a *decision* of a *hearing panel* and the reasons for the *decision*, except a *decision* and reasons rejecting a *settlement agreement*.

(4) A decision made by a *hearing panel* on the merits of a proceeding must be recorded in the record maintained by ~~*IIROC*~~the *Corporation* with respect to the *respondent*.

(5) In addition to a *decision* accepting a *settlement agreement* and the reasons for it, ~~*IIROC*~~the *Corporation* must publish and record information concerning the accepted *settlement agreement* in accordance with subsections 8410(2) through 8410(4), as if the *settlement agreement* were a *decision* on the merits.

8411. Language of hearings and interpreters

(1) A hearing may be conducted in English or French or partly in English or French.

(2) A *hearing* in a *District* other than Québec must be conducted in English, unless the *parties*, with the consent of a *hearing panel*, agree that it be conducted in French.

(3) A hearing in Québec must be conducted in French, unless the *parties*, with the consent of a *hearing panel,* agree that it be conducted in English.

(4) A party who wishes a *hearing* to be conducted in French, or in Québec in English, must *file* a request with the *National Hearing Officer* as soon as possible after the proceeding is commenced.

(5) A *party* who requires an interpreter for a language other than the language in which a *hearing* is to be conducted, whether to assist the *party* or for the testimony of a witness to be called by the *party*, must notify the *National Hearing Officer* at least 30 days before the commencement of the *hearing*.

(6) An interpreter must be competent and independent and must swear or affirm to interpret accurately.

8412. Commencement and abandonment of proceedings

(1) A proceeding, and a step in a proceeding that requires a notice, is commenced upon the issuance by the *National Hearing Officer* of a *commencing notice* at the request of a *party*.

(2) A party who requests the issuance of a *commencing notice* must first obtain a date from the *National Hearing Officer* for:

(i) if the *commencing notice* is a notice of *hearing*, an initial appearance before a *hearing panel*,

(ii) if the *commencing notice* is a notice of *application*, the *hearing* of the *application*,

(iii) if the *commencing notice* is a notice of motion, the *hearing* of the motion,

(iv) if the *commencing notice* is a notice of *prehearing conference*, the *prehearing conference*, or

(v) if the *commencing notice* is a notice of request for review pursuant to sections 8427 or 8430, the review *hearing*,

and must submit a copy of the *commencing notice* to the *National Hearing Officer* with a request that it be issued.

(3) A request under subsection 8412(2) to the *National Hearing Officer* for a date or the issuance of a *commencing notice* must be made on a form prescribed by the *National Hearing Officer*.

(4) If a *hearing panel* sets a date for a *prehearing conference*, or other *hearing* other than in connection with a *commencing notice*, the *National Hearing Officer* must give written notice of the date to the *parties* by mail or electronic transmission in accordance with clause 8406(3)(vi) or 8406(3)(vii).

(5) Upon issuing a *commencing notice* or other notice of a *hearing*, the *National Hearing Officer* must place a copy of the *commencing notice* or other notice in a file maintained for the proceeding.

(6) ~~IIROC~~The *Corporation* must publish on ~~*IIROC's*~~its website an announcement of and copy of a *commencing notice* or other notice as soon as practicable after it is issued by the *National Hearing Officer*, unless the *commencing notice* is for an *application* under section 8211 made without notice to the *respondent* or is a notice of *prehearing conference*.

(7) A party who initiates a proceeding or a step in a proceeding that requires a notice may abandon the proceeding or step before it has been decided by a *hearing panel* by serving and *filing* a notice of abandonment.

(8) If a proceeding or a step in a proceeding is abandoned, ~~*IIROC*~~the *Corporation* must publish on ~~*IIROC's*~~its website an announcement of and a copy of the notice of abandonment as soon as practicable after it is *filed*, unless the *commencing notice* for the proceeding or step has not been so published.

8413. Motions

(1) A motion must be commenced by a notice of motion.

(2) A motion may be brought:

(i) with the consent of a *hearing panel*, prior to, or

(ii) at any time after,

the commencement of a proceeding.

(3) A *party* who brings a motion must serve and *file* a motion record at least 14 days prior to the date of the motion, unless the motion is brought during a *hearing*, in which case the *hearing panel* may determine the procedure to be followed for the motion.

(4) A hearing *panel* may permit a *party* to bring a motion without notice to the *respondent*, if the nature of the motion or the circumstances make service of a notice of motion impractical.

(5) A notice of motion must contain:

(i) the date, time and location of the *hearing* of the motion,

(ii) the relief sought,

(iii) a summary of the grounds for the relief sought, including reference to any ~~*IIROC*~~*Corporation requirements* or *applicable laws*,

(iv) a list of evidence and other materials to be relied on, and

(v) whether it is proposed that the motion be heard as an *oral hearing*, *electronic hearing* or *written hearing*.

(6) A motion record must contain:

(i) the notice of motion, and

(ii) copies of the evidence, including affidavits and other materials relied on.

(7) A responding *party* may serve and *file* a responding record at least nine days prior to the date of the motion, unless the motion is brought during a *hearing* and the *hearing panel* orders otherwise.

(8) A responding record must contain:

(i) the order requested by the *responding party*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(9) A *party* who is served with a responding record that contains affidavit evidence may serve and *file* a reply record containing additional affidavit evidence at least seven days before the date of the motion.

(10) A party who *files* an affidavit in connection with a motion must make the person who swears to an affidavit reasonably available to be cross-examined by an adverse *party* prior to the *hearing* of the motion.

(11) A *party* who brings a motion may serve and *file* a memorandum of fact and law at least five days before the date of the motion.

(12) A responding *party* may serve and *file* a memorandum of fact and law at least two days before the date of the motion.

(13) A motion must be heard by a *hearing panel*.

(14) A hearing *panel* may, on any terms and conditions it considers appropriate, permit oral testimony to be adduced at the *hearing* of a motion on any matter in issue and allow cross-examination of the person who swears to an affidavit.

(15) A hearing *panel* may:

(i) grant the relief requested in a motion,

(ii) dismiss or adjourn the motion in whole or in part, with or without terms, or

(iii) make another decision it considers appropriate, including adjourning the motion to be heard by the *hearing panel* that hears the proceeding on its merits.

PART B - ENFORCEMENT PROCEEDINGS

8414. Commencement of disciplinary proceedings

(1) Forthwith after a proceeding pursuant to section 8209 or 8210 is commenced, *Enforcement Staff* must serve the *respondent* with, and *file*, the notice of *hearing* and a statement of allegations.

(2) A notice of *hearing* must contain:

(i) the date, time and location of an initial appearance before a *hearing panel*,

(ii) a statement of the purpose of the proceeding,

(iii) a statement that the allegations on which the proceeding is based are contained in the statement of allegations,

(iv) a reference to ~~*IIROC*~~*Corporation requirements* under which the proceeding is brought,

(v) the nature of the *sanctions* that may be imposed,

(vi) if the notice of *hearing* states that the *hearing* is to be an *electronic hearing* or *written* hearing, a statement that the *respondent* may object to the type of *hearing* and the procedure to be followed for an objection,

(vii) a statement that the *respondent* must provide a response to the notice of *hearing* in accordance with section 8415, the time within which a response must be served and *filed* and the consequences of failing to do so,

(viii) a statement that the initial appearance will be followed immediately by an initial *prehearing conference*, for which a *prehearing conference* form must be *filed* in accordance with subsection 8416(5), and

(ix) any other information that *Enforcement Staff* considers advisable.

(3) A statement of allegations may accompany or comprise part of a notice of *hearing* and must contain:

(i) a reference to ~~*IIROC*~~*Corporation requirements* or *applicable laws* that the *respondent* is alleged to have contravened,

(ii) the facts alleged in support of the alleged contraventions, and

(iii) the conclusions of *Enforcement Staff* based on the alleged facts.

(4) The date of an initial appearance set out in a notice of *hearing* must not be less than 45 days after the notice of *hearing* is served, unless the *respondent* consents to an earlier date.

8415. Response to a notice of hearing

(1) A *respondent* must serve and *file* a response within 30 days from the date of service of a notice of hearing.

(2) A response must contain a statement of:

(i) the facts alleged in the statement of allegations that the *respondent* admits,

(ii) the facts alleged that the *respondent* denies and the grounds for the denial, and

(iii) all other facts on which the *respondent* relies.

(3) A *hearing panel* may accept as proven any facts alleged in a statement of allegations that are not specifically denied or for which grounds for the denial are not provided in a response.

(4) If a respondent who has been served with a notice of *hearing* does not serve and *file* a response in accordance with subsection 8415(1), the *hearing panel* may proceed with the *hearing* of the matter on its merits on the date of the initial appearance set out in the notice of *hearing*, without further notice to and in the absence of the *respondent*, and the *hearing panel* may accept as proven the facts and contraventions alleged in the statement of allegations and may impose *sanctions* and costs pursuant to section 8209 or 8210, as applicable.

8416. Prehearing conferences

(1) At any time prior to commencement of the *hearing* of a proceeding on the merits:

(i) a hearing *panel* may order a *prehearing conference*, or

(ii) a party may request a *prehearing conference* by serving and *filing* a notice of *prehearing conference* at least 14 days before the date of the *prehearing conference*.

(2) A notice of *prehearing conference* must contain:

(i) the date, time, location and purpose of the *prehearing conference*,

(ii) any order of a *hearing panel* concerning the obligations of the *parties* with respect to the *prehearing conference*, including:

(a) any requirement concerning the exchange or *filing* of *documents* or submissions pursuant to subsection 8416(7), and if so the issues to be addressed and the date by which the *documents* or submissions must be exchanged and *filed*,

(b) whether the *parties* must attend in person,

(iii) a statement that the *parties* may be represented by counsel or an agent who, if a *party* is not required to attend, must have authority to make agreements and undertakings on the *party's* behalf,

(iv) whether it is proposed that the *prehearing conference* is to be heard orally, electronically or in writing,

(v) a statement that if a *party* does not attend in person or by counsel or an agent, the *hearing* panel may proceed with the *prehearing conference* in the *party's* absence, and

(vi) a statement that any orders made by the *hearing panel* will be binding on the *parties*.

(3) If a *hearing panel* orders a *prehearing conference*, the *National Hearing Officer* must set a date for the *prehearing conference*, if necessary, and serve a notice of *prehearing conference* on the *parties* with a copy of the *decision* of the *hearing panel*.

(4) If a respondent has served and *filed* a response in accordance with subsection 8415(1), the initial appearance provided in a notice of *hearing* must be followed immediately by an initial *prehearing conference*, for which no notice of *prehearing conference* is required.

(5) If a response has been served and *filed*, the *parties* must serve and *file* a *prehearing conference* form, in a form prescribed by the *National Hearing Officer*, at least five days before the date of the initial appearance specified in the notice of *hearing*.

(6) At a prehearing *conference*, a *hearing panel* may consider any issue that may assist in a just and expeditious resolution of the proceeding, including:

(i) identification, simplification and clarification of the issues,

(ii) disclosure of documents, including expert reports,

(iii) facts or evidence on which the *parties* agree,

(iv) admissibility of evidence, including evidence to be admitted on consent and identification of objections,

(v) scheduling of motions,

(vi) procedural issues, including identifying and setting dates by which steps in the proceeding are to be commenced or taken, the estimated duration of a *hearing* and the dates on which the *hearing* will commence and be conducted,

(vii) settlement of any or all issues in the proceeding, and

(viii) any other procedural or substantive matters.

(7) A hearing *panel* at a *prehearing conference* may:

(i) set a timetable for steps preceding a *hearing* and for the *hearing*,

(ii) schedule further *prehearing conferences*, preliminary motions and the *hearing* of the proceeding on its merits,

(iii) amend an existing schedule or timetable,

(iv) set the issues to be addressed at a further *prehearing conference* or in a motion,

(v) order the *parties* to exchange or *file* by a specified date *documents* or submissions for purposes of a further *prehearing conference* or a motion,

(vi) order that the proceeding be case managed by the *hearing panel* or another *hearing panel* to be selected by the *National Hearing Officer*, with or without the consent of the parties,

(vii) exercise the authority conferred by section 8208 to require a *person* to attend and give evidence or produce *documents* at a *hearing,* and

(viii) with the consent of the *parties*, make an order resolving any matter, including matters relating to:

(a) facts or evidence agreed on,

(b) disclosure of *documents* or evidence,

(c) the resolution of any or all of the issues in the proceeding, and

(ix) make any other procedural order that the *hearing panel* believes will further the just and expeditious conduct of the proceeding.

(8) A *hearing panel* that case manages a proceeding must preside over all *prehearing conferences* and preliminary motions in the proceeding, unless the *hearing panel* orders otherwise.

(9) An order, agreement or undertaking that is made or given at a *prehearing conference* must be recorded in a prehearing memorandum that is:

(i) prepared by or under the direction of the *hearing panel* taking into account the principles in subsections 8416(12) and 8416(13),

(ii) circulated to the *parties* for comment,

(iii) approved and signed by the *hearing panel,* and

(iv) distributed to the *parties* and any other *person* that the *hearing panel* directs.

(10) A prehearing memorandum must be *filed* and provided to the *hearing panel* at subsequent *hearings* in the proceeding.

(11) An order, agreement or undertaking recorded in a prehearing memorandum is binding on the *parties*, unless a *hearing panel* orders otherwise.

(12) Unless recorded in a prehearing memorandum, all statements and written submissions made at a *prehearing conference* are without prejudice and must not be communicated to a *hearing panel*, except at a subsequent *prehearing conference*.

(13) A prehearing *conference* must be held in the absence of the public, and subject to subsections 8416(9) and 8416(10), prehearing *documents*, exhibits, submissions and transcripts must not be disclosed to the public.

(14) A prehearing agreement to settle all of the issues in a proceeding is subject to approval by another *hearing panel* pursuant to section 8215.

8417. Disclosure

(1) As soon as is reasonably practicable after a response is served and *filed*, and if requested by the *respondent, Enforcement Staff* must disclose to and make available for inspection by a *respondent* all *documents* and things in ~~*IIROC*~~the *Corporation's* possession or control that are relevant to the proceeding, including *documents* and things that are relevant to the *respondent's* ability to make full answer and defence.

(2) Enforcement *Staff* must provide copies to, in hard copy or electronic form, or permit a *respondent* to make copies of all *documents* and things specified in subsection 8417(1) as soon as is reasonably practicable after it makes disclosure and no later than 40 days before the commencement of the *hearing* on the merits.

(3) As soon as is reasonably practicable after a response is served and *filed*, and no later than 40 days before the commencement of the *hearing* on the merits, each *party* to a proceeding must serve every other *party* with:

(i) all *documents* that the *party* intends to produce or enter as evidence at the *hearing* on the merits, and

(ii) a list of items, other than *documents*, that the *party* intends to produce or enter as evidence at the *hearing* on the merits.

(4) At any stage of a proceeding, a *hearing panel* may order a *party* to provide to another *party* any *document* or other information that the *hearing panel* considers appropriate, within a time period and on terms and conditions determined by the *hearing panel*.

(5) A party who does not disclose a *document* or thing in compliance with subsections 8417(3) and 8417(4) may not introduce in evidence or refer to the *document* or thing at a *hearing* on the merits without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8418. Witness lists and statements

(1) Subject to section 8417, as soon as reasonably practicable after a response is served and *filed*, and no later than 30 days before the commencement of the *hearing* on the merits, *Enforcement Staff* must serve:

(i) a list of the witnesses *Enforcement Staff* intends to call to testify at the *hearing*, and

(ii) in respect of each witness named on the list, a summary of the evidence the witness is expected to give at the *hearing*, a witness statement signed by the witness or a transcript of a recorded statement of the witness.

(2) Subject to section 8417, as soon as reasonably practicable after a response is served and *filed,* and no later than 20 days before the commencement of the *hearing* on the merits, a *respondent* must serve:

(i) a list of the witnesses, not including the *respondent*, whom the *respondent* intends to call to testify at the *hearing*, and

(ii) in respect of each witness named on the list, a summary of the evidence the witness is expected to give at the *hearing*, a witness statement signed by the witness or a transcript of a recorded statement of the witness, unless the transcript was disclosed by *Enforcement Staff* pursuant to section 8417 or subsection 8418(1).

(3) A summary of expected evidence, witness statement or transcript served in accordance with subsection 8418(1) or 8418(2) must contain:

(i) the substance of the evidence of the witness,

(ii) a reference to any *document* the witness will refer to, and

(iii) the name, address and telephone number of the witness or of a *person* through whom the witness can be contacted.

(4) A *party* who does not include a *person* in a witness list or disclose the *person's* expected evidence in accordance with subsections 8418(1) through 8418(3) may not call the *person* as a witness at the *hearing* without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

(5) A witness may not testify to matters not disclosed in accordance with subsection 8418(3) without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8419. Expert witnesses

(1) A *party* who intends to call an expert witness at a *hearing* must, at least 45 days before the commencement of the *hearing*, serve a written report signed by the expert.

(2) A party who intends to call an expert witness in response to an expert's report served pursuant to subsection 8419(1) must, at least 20 days before the commencement of the *hearing*, serve a written report signed by the expert.

(3) A *party* who intends to call expert evidence to reply to a responding expert's report served pursuant to subsection 8419(2) must, at least 10 days before the commencement of the *hearing*, serve a written report in reply signed by the expert.

(4) An expert's report must contain:

(i) the name, address and qualifications of the expert,

(ii) the substance of the expert's evidence, and

(iii) a reference to any *document* the expert will refer to.

(5) A *party* who does not comply with subsection 8419(1), 8419(2) or 8419(4) may not call the expert as a witness or introduce in evidence or refer to the expert's report or opinion at a *hearing,* without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

(6) If the *party* who calls an expert witness has not complied with subsection 8419(3), the expert witness may not testify to matters for which an expert's report in reply was required, without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8420. Deemed undertaking

(1) In this section, "information" means evidence and information obtained from a *party* that is required to be disclosed or provided pursuant to sections 8416, 8417, 8418 and 8419 prior to a hearing on the merits, including evidence and information disclosed or provided in a *prehearing conference*, and any information obtained from such evidence or information.

(2) This section does not apply to *information* obtained otherwise than under section 8416, 8417, 8418 or 8419 or in a *prehearing conference*.

(3) A party and its counsel or agent are deemed to undertake not to disclose or use *information* for any purposes other than those of the proceeding in which the *information* was obtained, without the consent of the *party* who disclosed or provided the *information* or *information* on the basis of which the *information* was obtained.

(4) Subsection 8420(3) does not prohibit use of *information* that is:

(i) *filed* with the National Hearing Officer,

(ii) given or referred to during a *hearing,* or

(iii) obtained from information referred to in clauses 8420(4)(i) and 8420(4)(ii).

(5) Notwithstanding subsection 8420(3), *information* may be used to impeach the testimony of a witness in another proceeding.

(6) A hearing *panel* may permit the use of *information* that is subject to this section for purposes other than those of the proceeding in which it was disclosed or provided, if the *hearing panel* is satisfied that the public interest outweighs any prejudice that would result to the *party* who disclosed the *information* or the *person* from whom it was obtained by that *party*, subject to any terms and conditions the *hearing panel* considers just.

8421. Order to attend and issue of summons

(1) At any stage of a proceeding, a *party* may request a *hearing panel* to exercise its authority under section 8208 to require a *person* to attend and give evidence or produce *documents* at a hearing.

(2) If a *hearing panel* orders a *person* who is subject to ~~*IIROC*~~the *Corporation's* contractual jurisdiction to attend and give evidence or produce *documents*, the *National Hearing Officer* must serve a notice, in a prescribed form, by personal service in accordance with clause 8406(3)(i), 8406(3)(iv) or 8406(3)(v), requiring the attendance of the *person* to give evidence or produce documents, as ordered by the *hearing panel*.

(3) If a hearing *panel* orders an employee, partner, director or officer of a *Regulated Person*, who is not an *Approved Person*, to attend at a *hearing,* the *National Hearing Officer* must serve a notice on the *person* in accordance with subsection 8421(2) and on the *Regulated Person* requiring the *Regulated Person* to direct the *person* to comply with the order.

(4) If a *hearing panel* orders a *person* who is not subject to ~~*IIROC*~~the *Corporation's* contractual jurisdiction to attend and give evidence or produce *documents* in a *District* in which the *hearing panel* is authorized by law to do so, the *National Hearing Officer* must serve a summons or subpoena in accordance with the procedure prescribed by law for the issue of a summons or subpoena by a court, regulatory tribunal or analogous decision maker in the *District*.

8422. Adjournments

(1) A *party* who decides to request an adjournment of a *hearing* on the merits must immediately so advise the other *parties* and the *National Hearing Officer* in writing.

(2) If the other *parties* consent to the request for an adjournment, the *requesting party* may serve and *file* a written request for the adjournment stating that it is made on consent, and a *hearing panel* may:

(i) refuse the request,

(ii) reschedule the *hearing* without a *hearing* on the request, or

(iii) require a *hearing* on the request.

(3) If the *parties* do not consent to a request for an adjournment, the *requesting party* must bring a motion as soon as possible and the notice of motion must contain:

(i) the reasons for the adjournment,

(ii) the length of time requested for the adjournment, and

(iii) if the motion is brought fewer than 40 days before the date of the *hearing*, a request for an abridgement of the times specified in section 8413, if necessary.

(4) If a motion requesting an adjournment cannot be heard at least 20 days before the date for the commencement of the *hearing* and the *parties* do not consent, the motion must be heard at the commencement of the *hearing* and the *requesting party* must be prepared to proceed if the motion is denied.

(5) A hearing *panel* may grant or deny an adjournment on any terms and conditions it considers just.

8423. Conduct of hearing on the merits

(1) At a *hearing* on the merits a *respondent* is entitled to be represented by counsel or an agent and to make submissions.

(2) At a hearing on the merits, other than a *written hearing*, a *respondent* is entitled:

(i) to attend and be heard in person,

(ii) to call and examine witnesses and present documentary and other evidence, and

(iii) to cross-examine witnesses as reasonably required for a full and fair disclosure of all matters relevant to the issues in the proceeding.

(3) A *hearing* on the merits, other than a *written hearing*, must be conducted in the following order:

(i) *Enforcement Staff* may make an opening address, which may be followed by an opening address by the *respondent*,

(ii) Enforcement *Staff* must present its evidence and examine its witnesses, who may be cross-examined by the *respondent*,

(iii) the *respondent* may make an opening address and must present its evidence and examine its witnesses, who may be cross-examined by other *parties*,

(iv) *Enforcement Staff* may present evidence in reply to any evidence presented for the first time by the *respondent* and examine witnesses, who may be cross-examined by the respondent,

(v) if the *hearing panel* requests or permits, the *parties* may serve and *file*, by dates ordered by the *hearing panel*, submissions in writing on the facts and legal argument with respect to the contraventions alleged in the notice of *hearing*, which submissions must not be made public prior to the commencement of the *hearing* of the submissions, and, if necessary, the *National Hearing Officer* must set a date for the hearing of such submissions,

(vi) Enforcement *Staff* may make closing submissions, followed by the *respondent's* closing submissions and *Enforcement Staff's* reply to issues raised by the *respondent*,

(vii) unless the *parties* agree otherwise, after the *hearing panel* makes its *decision* on the merits of the allegations in the notice of *hearing*, the *National Hearing Officer* must set a date for the presentation of additional evidence, if any, and the *hearing* of submissions on *sanctions* and costs, and

(viii) the hearing *panel* may request or permit the *parties* to serve and *file* written submissions on *sanctions* and costs, which submissions must not be made public prior to the commencement of the *sanctions hearing*.

(4) After cross-examination of a witness, the *party* who called the witness may further examine the witness with respect to matters raised for the first time in cross-examination.

(5) Following examination and cross-examination of a witness, a *hearing panel* may ask questions of the witness, subject to the right of the *parties* to ask further questions with respect to matters raised by the *hearing panel*.

(6) If two or more *respondents* are separately represented, the *hearing panel* may direct the order of presentation.

(7) A *hearing panel* may control the scope and manner of questioning of a witness to protect the witness from undue harassment.

(8) A *hearing panel* may order a witness to be excluded from a *hearing* until the witness is called to give evidence, unless the presence of the witness is necessary to instruct a *party's* counsel or agent, in which case the *hearing panel* may require the witness to be called to give evidence before other witnesses are called.

(9) If a *hearing panel* orders the exclusion of a witness, evidence given during the witness's absence from the *hearing* must not be communicated to the witness until the witness has completed giving evidence, except with leave of the *hearing panel*.

(10) A *hearing panel* may permit a *party* to present the evidence of a witness or proof of a particular fact or *document* by affidavit, unless another *party* reasonably requires the attendance of the witness at the *hearing* for cross-examination.

(11) If a *hearing panel* requests or permits the *parties* to make written submissions on *sanctions* and costs, unless the *hearing panel* orders otherwise:

(i) the date set for the *sanctions hearing* must be at least 30 days after the date of the *decision* on the merits,

(ii) *Enforcement Staff* must serve and *file* submissions at least 14 days before the sanctions *hearing*,

(iii) the *respondent* must serve and *file* submissions at least seven days before the sanctions *hearing*, and

(iv) Enforcement *Staff* must serve and *file* any reply submissions at least three days before the *sanctions hearing*.

(12) If a respondent who has been served with a notice of *hearing* does not attend the *hearing* on the merits, the *hearing panel:*

(i) may proceed with the *hearing* in the *respondent's* absence and may accept as proven the facts and contraventions alleged in the notice of *hearing* and statement of allegations, and

(ii) if it finds that the *respondent* committed the alleged contraventions, may hear submissions on *sanctions* from *Enforcement Staff* immediately, without a further *hearing* on *sanctions* and costs, and may impose *sanctions* and costs pursuant to sections 8209 or 8210, as it considers appropriate.

8424. Written hearings

(1) If a hearing is a *written hearing*, the *party* who serves a *commencing notice* must, with the motion or other record required by the *Rules of Procedure* or within a time directed by a *hearing panel*, serve and *file* the *party's* written submissions containing, as applicable:

(i) a statement of agreed facts,

(ii) the party's factual and legal submissions, and

(iii) any material ordered by the *hearing panel*.

(2) A *respondent* or *responding party* may respond, within the time provided in subsection 8413(7) or in a *decision* of a *hearing panel*, by serving and *filing* a responding motion record, if applicable, and the *party's* factual and legal submissions.

(3) A *party* may reply to a response served pursuant to subsection 8424(2), within the time provided in subsection 8413(9) or in a *decision* of a *hearing panel,* by serving and *filing* a reply record, if applicable, and the *party's* factual and legal submissions.

(4) A hearing *panel* may:

(i) require a party to serve and *file* additional information,

(ii) on request of a *party*, order that a *party* present a witness to be examined or cross-examined on any terms and conditions the *hearing panel* directs, and

(iii) after considering the record, order that the *hearing* be continued as an *oral hearing* or *electronic hearing*.

8425. Temporary orders

(1) Where a proceeding pursuant to section 8211 is commenced, *Enforcement Staff* must *file* a notice of *application* and *application* record at least five days prior to the date of the *hearing* or a shorter period permitted by a *hearing panel*.

(2) An application under subsection 8425(1) may be made with or without notice to the *respondent*.

(3) A notice of *application* must contain:

(i) the date, time and location of the *hearing*,

(ii) whether notice has been given to the *respondent*,

(iii) a statement of the purpose of the proceeding,

(iv) the sanctions requested by *Enforcement Staff*,

(v) the grounds for the *application*, including a reference to any ~~*IIROC*~~*Corporation requirements* or *applicable* laws that the *respondent* is alleged to have contravened,

(vi) a statement of the facts alleged that support the alleged contraventions and the need for a temporary order,

(vii) a list of documentary and other evidence relied on,

(viii) whether it is proposed that the *application* be heard as an *oral hearing*, *electronic hearing* or *written hearing*, and

(ix) any other information that *Enforcement Staff* considers advisable.

(4) An *application* record must contain:

(i) the notice of *application*, and

(ii) copies of the evidence, including affidavit and other materials relied on.

(5) If an *application* under subsection 8425(1) is made with notice, *Enforcement Staff* must serve the *respondent* with the *application* record before it is *filed* and the *respondent* may serve and *file* a responding record at least two days prior to the date of the *hearing*.

(6) A responding record must contain:

(i) the order requested by the *respondent*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(7) A party to an *application* under subsection 8425(1) may serve, if notice is given, and *file* a memorandum of fact and law prior to the *hearing* of the *application*.

(8) A hearing *panel* may, at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the *hearing* on any matter in issue and allow cross-examination on an affidavit.

(9) A hearing *panel* may:

(i) grant the temporary order requested,

(ii) dismiss or adjourn the *application* in whole or in part, with or without terms, and

(iii) make another *decision* it considers appropriate.

(10) If an *application* under subsection 8425(1) is made on notice, the *decision* and reasons of the *hearing panel* constitute the notice required by subsection 8211(3).

(11) If an application under subsection 8425(1) is made without notice, a notice of a temporary order pursuant to subsection 8211(3) must contain:

(i) a statement that a temporary order has been made with respect to the *respondent*, describing the terms of the temporary order,

(ii) the grounds on which the temporary order was requested and a reference to the notice of application containing them, and

(iii) a summary of subsection 8211(2) and the date, time and location of a *hearing* pursuant to clause 8211(2)(i).

(12) A notice of a temporary order under subsection 8425(11) must be accompanied by:

(i) a copy of the *decision* or order and reasons of the *hearing panel*,

(ii) a copy of the notice of *application* and *application* record *filed* by *Enforcement Staff*,

(iii) a summary of any oral evidence received by the *hearing panel* or a transcript of the *hearing*,

(iv) copies of any documentary or other evidence received by the *hearing panel* that is not contained in the *application* record, and

(v) any written submissions presented to the *hearing panel*.

(13) A hearing to extend a temporary order must follow the procedure in section 8413 for a motion.

8426. Protective orders

(1) Where a proceeding pursuant to section 8212 is commenced, *Enforcement Staff* must serve the *respondent* with, and *file,* a notice of *application* and *application* record at least five days prior to the date of the *hearing* or a shorter period permitted by a *hearing panel*.

(2) A notice of *application* must contain:

(i) the date, time and location of the *hearing,*

(ii) a statement of the purpose of the proceeding,

(iii) the order requested by *Enforcement Staff*,

(iv) the grounds for the application, including a reference to any ~~*IIROC*~~*Corporation requirements* or *applicable laws* that the *respondent* is alleged to have contravened,

(v) a statement of the facts alleged that support the alleged contraventions, the need for a protective order and the order sought,

(vi) a list of documentary and other evidence relied on,

(vii) whether it is proposed that the *application* be heard as an *oral hearing*, *electronic hearing* or written *hearing*, and

(viii) any other information that *Enforcement Staff* considers advisable.

(3) An *application* record must contain:

(i) the notice of *application*, and

(ii) copies of the evidence, including affidavits and other materials relied on.

(4) Enforcement *Staff* must serve the *application* record before it is *filed* and a *respondent* may serve and *file* a responding record.

(5) A responding record must contain:

(i) the order requested by the *respondent*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(6) A party to an *application* under subsection 8426(1) may serve and *file* a memorandum of fact and law prior to the *hearing* of the *application*.

(7) A *hearing panel* may, at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the *hearing* on any matter in issue and allow cross-examination on an affidavit.

(8) A hearing *panel* may:

(i) grant the order requested,

(ii) dismiss or adjourn the *application* in whole or in part, with or without terms, and

(iii) make any other *decision* authorized by subsection 8212(4) that it considers appropriate.

8427. Review of protective orders

(1) A *party* who requests a review of a *decision* made under section 8212 must serve and *file*, within 30 days of the date of the *decision*, a notice of request for review and a review record.

(2) A notice of request for review must contain:

(i) the date, time and location of the *hearing* of the request for review,

(ii) the relief sought,

(iii) the grounds for the relief sought, including reference to any ~~*IIROC*~~*Corporation requirements* or *applicable laws*,

(iv) a list of evidence and other materials relied on, and

(v) whether it is proposed that the request for review be heard as an *oral hearing*, *electronic hearing* or *written hearing*.

(3) A review record must contain:

(i) the notice of request for review, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(4) Enforcement *Staff* must *file*, at least seven days prior to the date of the review *hearing*, a record that contains the record of the *hearing* under section 8212, the *decision* and reasons of the *hearing panel*, a transcript of the *hearing* and copies of any documentary or other evidence received by the *hearing panel* not otherwise contained in the record.

(5) A responding *party* may serve and *file* a reply no later than seven days prior to the date of the review *hearing*.

(6) A reply must contain:

(i) the order requested by the *responding party* and a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other material relied on.

(7) The *parties* may serve and *file* a memorandum of fact and law no later than two days prior to the date of the review *hearing*.

(8) A review *hearing* must be conducted in the following order:

(i) the *requesting* party may present evidence,

(ii) the *responding party* may present evidence,

(iii) the *requesting party* may make submissions,

(iv) the responding *party* may make submissions, and

(v) the requesting *party* may reply to the submissions of the *responding party*.

(9) A *hearing panel* may at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the review *hearing* on any matter in issue and allow cross-examination on an affidavit.

(10) At any time prior to a review *hearing*, a *requesting party* may bring a motion for a stay of an order made under subsection 8212(4).

8428. Settlement hearings

(1) If a settlement *agreement* is made after a notice of *hearing* has been issued, a *settlement hearing* must be commenced by a notice of motion.

(2) If a settlement *agreement* is made before a notice of *hearing* is issued, a *settlement hearing* must be commenced by a notice of *application*.

(3) Enforcement *Staff* must serve the *respondent* with, and *file*, a *commencing notice* for a *settlement hearing* and must *file* copies of the *settlement agreement* at least seven days prior to the date of the *settlement hearing*, unless the *hearing* on the merits has commenced and the *hearing panel* orders otherwise.

(4) A commencing *notice* for a *settlement hearing* must contain:

(i) the date, time and location of the *settlement hearing*,

(ii) the identity of the *respondent*,

(iii) a statement of the purpose of the *hearing*,

(iv) the general nature of the allegations addressed by the *settlement agreement*, and

(v) whether it is proposed that the *settlement hearing* be an *oral hearing*, *electronic hearing* or *written hearing*.

(5) A *settlement agreement* must not be open for inspection by the public unless it has been accepted by a *hearing panel*.

(6) At a settlement *hearing*, facts that are not contained in the *settlement agreement* must not be disclosed to the *hearing panel* without the consent of all *parties*, unless the *respondent* does not appear, in which case *Enforcement Staff* may disclose additional relevant facts, if requested by the *hearing panel*.

8429. Monitor

(1) A request for directions by *Enforcement Staff* or a *Monitor* must be made by bringing a motion in accordance with section 8413.

PART C - REVIEW PROCEEDINGS

8430. Regulatory review hearings

(1) A party who requests a review of a *regulatory decision* must serve and *file*, within the time specified in ~~*IIROC*~~*Corporation requirements* relating to the *regulatory decision* and:

(i) in the case of a decision made under section 9204, 9206 or 9207, at least 14 days, and

(ii) in the case of a decision under Part B of Rule 4100, no more than the number of days specified in Part B of Rule 4100, prior to the date of the *hearing*, a notice of request for review and a review record.

(2) A notice of request for review must contain:

(i) the date, time and location of the *hearing* of the request for review,

(ii) the relief sought,

(iii) the grounds for the relief sought, including reference to any ~~*IIROC*~~*Corporation requirements* or applicable *laws*,

(iv) a list of evidence and other materials relied on, and

(v) whether it is proposed that the request for review be heard as an *oral hearing*, electronic *hearing* or *written hearing*.

(3) A review record must contain:

(i) the notice of request for review,

(ii) any notice of the *regulatory decision* received by the *requesting party*,

(iii) the regulatory *decision* and any reasons for the *regulatory decision*,

(iv) any materials that accompanied the notice of the *regulatory decision* or the *regulatory decision* received by the *requesting party*,

(v) copies of any additional evidence, including affidavits and other materials relied on.

(4) A responding *party* may serve and *file* a reply no later than seven days prior to the date of the review *hearing*.

(5) A reply must contain:

(i) the order requested by the *responding party* and a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other material relied on.

(6) The parties may serve and *file* a memorandum of fact and law no later than two days prior to the date of the review *hearing*.

(7) A review *hearing* must be conducted in the following order:

(i) the requesting *party* may present evidence,

(ii) the responding *party* may present evidence,

(iii) the requesting *party* may make submissions,

(iv) the responding *party* may make submissions, and

(v) the requesting *party* may reply to the submissions of the *responding party*.

(8) A *hearing panel* may at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the review *hearing* on any matter in issue and allow cross-examination on an affidavit.

~~(9) A member of a *District Council* whose *decision* is the subject of a request for review may not be a member of the *hearing panel* on the review *hearing*.~~

PART D - SECURITIES REGULATORY AUTHORITY REVIEW

8431. Record for review

(1) A party who applies to a *securities regulatory authority* for review of a final *decision* of a *hearing panel* may obtain a copy of the record of the proceeding in which the *decision* was made by sending a request for the record, in prescribed form, to the *National Hearing Officer*.

(2) The *National Hearing Officer* must provide a copy of the record of the proceeding to the *party* within a reasonable time after receipt of a request under subsection 8431(1), subject to payment of any applicable costs or fees.

(3) Subject to subsection 8431(4), the record of a proceeding must include copies of:

(i) the commencing *notice* in the proceeding,

(ii) any interim orders made in the proceeding,

(iii) any preconference memorandums,

(iv) documentary and other evidence adduced in the proceeding, subject to any limitations imposed under ~~*IIROC*~~*Corporation requirements* by a *hearing panel* or by law,

(v) any other *documents* in the proceeding requested by a *party*,

(vi) a transcript of oral evidence given at the *hearing* on the merits, and

(vii) the *decision* and reasons of the *hearing panel*.

(4) The *National Hearing Officer* may omit any *documents* from the record of a proceeding, if:

(i) the *parties* consent and the *hearing panel* agrees, or

(ii) the *hearing panel* so directs.

(5) The *National Hearing Officer* may require the *party* who requests the record of a proceeding to pay the costs of preparing a copy of the record and a reasonable fee for its preparation.

8432. – 8999. Reserved.

RULE 9100 | COMPLIANCE EXAMINATIONS

9101. Introduction

(1) Rule 9100 sets out the powers of ~~*IIROC*~~the *Corporation* to initiate and conduct compliance examinations and request information and the rights and obligations of *Regulated Persons* with respect to such examinations.

9102. Examinations

(1) An examination under Rule 9100 includes a request for information made by ~~*IIROC*~~*Corporation* staff.

9103. Conducting examinations

(1) ~~*IIROC*~~*Corporation* staff may examine the conduct, business and affairs of a *Regulated Person* with respect to ~~*IIROC*~~*Corporation requirements*, *applicable laws*, or trading or advising in respect of securities, *futures contracts* or derivatives.

(2) ~~*IIROC*~~*Corporation* staff may initiate an examination where they consider it advisable to do so.

9104. Examination powers

(1) In connection with an examination, ~~*IIROC*~~*Corporation* staff may, by written or electronic request, require a *Regulated Person* or an *employee,* partner, *Director*, officer or *approved investor* to:

(i) provide a written report with respect to any matter,

(ii) produce for inspection any *records* and documents in the *person's* possession or control that ~~*IIROC*~~*Corporation* staff believe may be relevant to the examination, whether written, electronically stored, or recorded,

(iii) provide copies of any such *records* and documents in the manner and form, including electronically and recorded, that ~~*IIROC*~~*Corporation* staff requests, and

(iv) answer questions with respect to any matter.

(2) In a request made under subsection 9104(1), ~~*IIROC*~~*Corporation* staff may require production of original documents and must provide a receipt for any original documents received.

(3) In connection with an examination, ~~*IIROC*~~*Corporation* staff:

(i) may, with or without prior notice, enter the business premises of any *Regulated* Person during business hours,

(ii) are entitled to free access to and to make and keep copies of all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and *records* of every description that ~~*IIROC*~~*Corporation* staff believe may be relevant to the examination, including by taking an image of the computer hard drives of the *Regulated Person*, and

(iii) may remove the original of any document or *record* obtained under clause 9104(3)(ii), and where an original document or *record* is removed from the premises, ~~*IIROC*~~*Corporation* staff must provide a receipt for the removed document or *record*.

9105. Obligations of Regulated Persons and other persons

(1) A *person* who receives a request made under section 9104 must comply with the request within the time specified in it.

(2) A *Regulated Person* must cooperate with ~~*IIROC*~~*Corporation* staff who are conducting an examination, and a *Regulated Person* must require its employees, partners, directors and officers to cooperate with ~~*IIROC*~~*Corporation* staff conducting an examination and to comply with a request made under section 9104.

(3) A *person* who is aware that ~~*IIROC*~~*Corporation* staff is conducting an examination must not conceal or destroy any *record*, document or thing that contains information that may be relevant to the examination or ask or encourage any other *person* to do so.

9106. Use of information

(1) ~~IIROC~~*Corporation* staff may refer any information obtained from an examination to *Enforcement Staff*, other ~~*IIROC*~~*Corporation* staff, or a securities, futures or derivatives regulatory authority.

(2) ~~IIROC~~*Corporation* staff may take any other appropriate action based on information obtained from an examination.

9107. – 9199. Reserved.

RULE 9200 | APPROVALS AND REGULATORY SUPERVISION

9201. Introduction

(1) Rule 9200 sets out the authority of ~~*IIROC*~~the *Corporation* to approve *individuals* employed by or otherwise acting on behalf of *Dealer Members*, to grant exemptions from ~~*IIROC*~~the *Corporation*'s proficiency requirements, to impose terms and conditions on approvals and *Membership* in ~~*IIROC*~~the *Corporation*, to suspend and revoke approvals, and rights of review available to *parties* to such decisions.

9202. Definitions

(1) The following terms have the meaning set out below when used in Rule 9200:

"application"	An application for approval or an exemption under Rule 9200, but does not include a request for a review of a decision on such an application under Rule 9300.
"decision"	A determination made by ~~a *District Council*, a *Registration Subcommittee*, *Registration Staff* or *IIROC*~~the *Corporation* under Rule 9200.
~~"District Council panel"~~	~~A panel of three members of a *District Council* appointed by the *National Hearing Officer* to conduct a *hearing* under section 9209.~~
"Registration Staff"	Registration staff of ~~*IIROC*~~the *Corporation*.
~~"Registration Subcommittee"~~ "senior review officer"	~~A subcommittee of a *District Council* to whom authority has been delegated under subsection 9203(1).~~A senior officer of the *Corporation* who has authority to review a decision made by the *Corporation* under section 9206 in accordance with the procedures set out in section 9209

9203. Corporation Decisions ~~of a District Council~~

~~(1) A District *Council* may delegate its authority to make decisions under Rule 9200 to a *Registration Subcommittee* of at least three *industry members* of the *District Council* or, except for its authority under section 9205 and subsection 9207(2), to *Registration Staff*.~~

~~(2~~

(1) Notice of a *Corporation decision* ~~of a *District Council*~~ must be given to an applicant or other *person* who is its subject.

(~~3~~2) ~~A District *Council*~~The *Corporation* must not:

(i) refuse an *application*,

(ii) impose terms and conditions on an approval, or

(iii) suspend or revoke an approval,

unless the applicant or *Approved Person* has been given an opportunity to be heard.

(~~4~~3) Written reasons must be provided with notice of a *decision* that:

(i) refuses an *application*,

(ii) imposes terms and conditions on an approval, or

(iii) suspends or revokes an approval.

(~~5~~4) A decision is effective on the date on which notice of the *decision* is provided to the *parties*, unless:

(i) the *decision* provides otherwise, in which case the *decision* is effective on the date so provided, or

(ii) unless the *decision* is stayed under subsection 9209(4) or by a *hearing panel*.

9204. Individual approval applications

(1) An individual may make an *application* to ~~a *District Council*~~the *Corporation* for approval as a:

(i) S*upervisor* ~~under section 2552~~,

(ii) *Director* or *Executive* ~~under section 2552~~,

(iii) *Registered Representative, Investment Representative, Portfolio Manager* and *Associate Portfolio Manager* ~~under section 2553~~,

(iv) *Chief Financial Officer, Chief Compliance Officer,* or *Ultimate Designated Person* ~~under section 2552~~, or

(v) *Trader* ~~under section 2557~~.

(2) ~~A *District Council*~~The *Corporation* must approve an *application* under subsection 9204(1), unless in its opinion:

(i) the applicant:

(a) does not comply with ~~*IIROC*~~*Corporation requirements*,

(b) is likely not to comply with ~~*IIROC*~~*Corporation requirements*, or

(c) does not comply with *securities laws* relating to or is not suitable for approval on the basis of training, experience, solvency or integrity, or

(ii) the approval is otherwise not in the public interest.

(3) ~~A *District Council*~~The *Corporation* may approve an *application* under subsection 9204(1), subject to any terms and conditions it considers appropriate.

9205. Membership approval applications

(1) ~~The *District Council*~~*Corporation* staff shall make a recommendation to the *Board* to:

(i) approve an *application* for *Dealer Member Membership* in ~~*IIROC*~~the *Corporation* made pursuant to section 3.5 of General By-law No. 1,

(ii) approve the *application* subject to such terms and conditions as may be considered just and appropriate, or

(iii) refuse the *application* if, in its opinion:

(a) the applicant does not comply with one or more ~~*IIROC*~~*Corporation requirements*,

(b) one or more ~~*IIROC*~~*Corporation requirements* will not be complied with by the applicant,

(c) the applicant is not qualified for approval by reason of integrity, solvency, or experience, or

(d) such approval is not in the public interest.

(2) Prior to consideration of an *application* for *Dealer Member Membership* in ~~*IIROC*~~the *Corporation* by the *Board*, the applicant shall be informed that it has an opportunity to be heard by the *Board*

before the *Board* decides on the *application* and shall be given a copy of ~~the *District Council*~~*Corporation* staff's recommendation and informed in writing of the reasons for it.

(3) The Board shall have the power to:

(i) approve an *application* for *Dealer Member Membership* in ~~*IIROC*~~the *Corporation* made pursuant to section 3.5 of General By-law No. 1,

(ii) approve the *application* subject to such terms and conditions as may be considered just and appropriate, or

(iii) refuse the *application* if, in its opinion:

(a) the applicant does not comply with one or more ~~*IIROC*~~*Corporation requirements*,

(b) one or more ~~*IIROC*~~*Corporation requirements* will not be complied with by the applicant,

(c) the applicant is not qualified for approval by reason of integrity, solvency, or experience, or

(d) such approval is not in the public interest.

(4) A decision of the *Board* under subsection 9205(3) is a final decision for which no further review or appeal is provided under ~~*IIROC*~~*Corporation requirements*.

9206. Exemption applications

(1) An *individual* or a *Dealer Member*, with respect to proficiency requirements applicable to its *Approved Persons*, may apply to ~~a *District Council*~~the *Corporation* for an exemption from the proficiency requirements under Rule 2600, or for an extension of or exemption from a continuing education requirement under Rule 2700.

(2) On an *application* under subsection 9206(1), the ~~*District Council*~~*Corporation* may grant an exemption or extension in accordance with any standards in the relevant rule, subject to any terms and conditions it considers appropriate.

9207. Continued approval

(1) ~~*A District Council*~~The *Corporation* may, in its discretion, impose terms and conditions on the continued approval of an *Approved Person* to ensure continuing compliance with ~~*IIROC*~~*Corporation requirements*.

(2) ~~*A District Council*~~The *Corporation* may suspend or revoke the approval of an *Approved Person*, if it appears to the ~~*District Council*~~*Corporation* that:

(i) the *Approved Person* is not suitable for approval by reason of integrity, solvency, training or experience,

(ii) the *Approved Person* has failed to comply with ~~*IIROC*~~*Corporation requirements*, or

(iii) the approval is otherwise not in the public interest.

9208. Terms and conditions on membership

(1) ~~*IIROC*~~The *Corporation* may impose terms and conditions on a *Dealer Member's* Membership in ~~*IIROC*~~the *Corporation*, where ~~*IIROC*~~the *Corporation* considers it appropriate to ensure continuing compliance with ~~*IIROC*~~*Corporation requirements*.

(2) ~~IIROC~~The *Corporation* must not impose terms and conditions on a Membership in ~~IIROC~~the *Corporation*, unless the *Dealer Member* has been given an opportunity to be heard.

(3) Notice of a *decision* imposing terms and conditions under subsection 9208(1) must be given to the *Dealer Member* and must be accompanied by written reasons for the *decision.*

9209. Review Hearings

(1) Within 30 days after the release of a *decision* under section 9204, 9207 or 9208, an applicant, *Approved Person* or *Dealer Member*, respectively, may request a review of the *decision* by a *hearing panel* under Rule 9300.

(2) An applicant may, within 30 days after the release of a *decision* under section 9206, request a review of the *decision* by a ~~*District Council panel*~~*senior review officer*.

(3) Registration *Staff* may, within 30 days after the release of a *decision*, other than a *decision* made by *Registration Staff*, request a review:

(i) of a *decision* under section 9204 or 9207 by a *decision* under Rule 9300, or

(ii) of a *decision* under section 9206 by a ~~*District Council panel*~~*senior review officer*.

(4) A request for review of a *decision* under section 9206 by *Registration Staff* operates as a stay of the *decision*.

(5) If a review of a *decision* under section 9206 is requested, the *National Hearing Officer* must, subject to subsection 9209(7), select ~~three members from the *District Council* of the applicable *District* as members of the *District Council panel* to review the *decision*, and subsections 8408(7), (10) and (11) apply to the selection and conduct of a *District Council panel*, with modifications required by the context of Rule 9200~~a *senior review officer* to review the *decision*.

(6) A ~~member of a *District Council*~~*decision maker* who has participated in a *decision* must not ~~participate as a member of a *hearing panel* or *District Council panel* on a~~be selected to review ~~of~~ the *decision*.

(7) On a review of a *decision* made under section 9206, ~~a *District Council panel*~~the *senior review officer* may:

(i) affirm the *decision*,

(ii) quash the *decision*,

(iii) vary or remove any terms and conditions imposed on the applicant, and

(iv) make any decision that could have been made by the ~~*District Council*~~*Corporation* under section 9206.

(8) A decision of ~~a *District Council panel*~~the *senior review officer* under subsection 9209(7) is a final decision for which no further review or appeal is provided under ~~*IIROC*~~*Corporation requirements*.

9210. Review by a securities regulatory authority

(1) A *party* may apply to the *securities regulatory authority* in the applicable *District* for a review of a final decision of a ~~*District Council panel*~~*senior review officer* under Rule 9200.

(2) A *person* who is entitled to request a review by a ~~*District Council panel*~~*senior review officer* under section 9209 of a *decision* made under section 9206 may not apply to a *securities regulatory authority* for review of that *decision*, unless the *person* has requested a review by a ~~*District*~~

~~*Council panel*~~*senior review officer* and the ~~*District Council panel*~~*senior review officer* has made a final *decision*.

(3) For purposes of subsection 9210(1), ~~*IIROC*~~*Corporation* staff is directly affected by a *decision* in a proceeding in which ~~*IIROC*~~*Corporation* staff is a *party*.

9211. – 9299. Reserved.

RULE 9300 | REGULATORY REVIEW PROCEEDINGS

9301. Introduction

(1) Rule 9300 sets out the authority of *hearing panels* to review a *decision* under Rule 9200 or an early warning level 2 prohibition under Part B of Rule 4100.

9302. Definitions

(1) The following terms have the meaning set out below when used in Rule 9300:

"application"	An application for approval under section 9204.
"approval order"	An order made under section 9207.
"compliance order"	An order made under section 9208.
"decision"	A determination made by ~~a *District Council*, a *person* to whom decision-making authority is delegated by a *District Council*, *IIROC*,~~the *Corporation* or a *hearing panel* that makes a decision in a review proceeding under Rule 9300.
"early warning review order"	An order made under Part B of Rule 4100.

9303. Hearings and decisions

(1) Section 8203 applies to a proceeding under Rule 9300, with modifications required by the context of this Rule 9300.

(2) A decision of a *hearing panel* is effective on the date the *decision* is dated by the *National Hearing Officer*, unless the *decision* provides otherwise, in which case the *decision* is effective on the date so provided.

9304. Review proceedings

(1) A request for review of a *decision* made on an *application,* an *approval order*, a *compliance order* or an *early warning review order* must be heard by a *hearing panel* in accordance with the *Rules of Procedure*.

(2) After a *hearing* under this section, a *hearing panel* may:

(i) affirm the *decision* under review,

(ii) quash the *decision*,

(iii) vary or remove any terms and conditions imposed by the *decision*,

(iv) prohibit, as applicable, a further *application* for approval under section 9204 by the applicant for a period of time it considers appropriate, or

(v) make any *decision* authorized by ~~*IIROC*~~*Corporation requirements* under which the *decision* was made.

~~(3) A member of a *District Council* who participates in a *decision* or in making an *approval order, compliance order* or *early warning review order* must not be a member of the *hearing panel* on a review of the *decision*.~~

9305. Review by a securities regulatory authority

(1) A *party* may apply to the *securities regulatory authority* in the applicable *District* for a review of a final *decision* of a *hearing panel* under Rule 9300.

(2) A *person* who is entitled to request a review of a *decision* under section 9304 may not apply to a *securities regulatory authority* for review of the *decision*, unless the *person* has requested a review by a *hearing panel* and the *hearing panel* has made a final *decision*.

(3) For purposes of subsection 9305(1), ~~*IIROC*~~*Corporation* staff is directly affected by a *decision* in a proceeding in which ~~*IIROC*~~*Corporation* staff is a *party*.

9306. – 9399. Reserved.

RULE 9400 | PROCEDURES FOR OPPORTUNITIES TO BE HEARD BEFORE DECISIONS ON APPROVAL AND REGULATORY COMPLIANCE MATTERS

9401. Introduction

(1) These procedures apply where ~~*IIROC*~~*Corporation requirements* require an opportunity to be heard before:

(i) ~~a *District Council* (including the *District Council's* delegate where authority has been delegated to a *Registration Subcommittee* or *IIROC*~~*Corporation* staff~~)~~,

(ii) a *senior decision officer* who has the authority to make a decision concerning an *individual* or a Dealer *Member*, or

(iii) the *Board* concerning an application for *Dealer Member Membership* in ~~*IIROC*~~the *Corporation*.

(2) These procedures will be followed where, under statutory authority that has been delegated to ~~*IIROC, IIROC*~~the *Corporation*, the *Corporation* makes a registration decision for which an opportunity to be heard is required under *securities laws*.

(3) Rule 9400 is divided into the following parts:

Part A - Opportunities to be heard by ~~a district council or~~ a senior decision officer
[sections 9403 through 9410]

Part B - Opportunities to be heard by the ~~board~~Board
[sections 9411 through 9417]

9402. Definitions

(1) The following terms have the meaning set out below when used in Rule 9400:

"decision maker"	~~*A District Council or senior officer*~~*Corporation* staff with authority to make a decision in a *hearing* under Rule 9200.
"Registration Staff"	Refers to registration employees of ~~*IIROC* or~~the *Corporation* and employees of ~~*IIROC*~~*Corporation* who conduct compliance examinations under Rule 9100.
~~"Registration Subcommittee"~~	~~A subcommittee of a *District Council* to whom authority to make a recommendation under section 9205 has been delegated under subsection 9203(1).~~
"senior decision officer"	A senior officer of ~~*IIROC*~~the *Corporation* who has authority to make a decision to impose terms and conditions on a *Dealer Member's Membership* in ~~*IIROC*~~the *Corporation* under section 9208

PART A - OPPORTUNITIES TO BE HEARD BY ~~A DISTRICT COUNCIL OR~~ A SENIOR DECISION OFFICER

9403. Opportunities to be heard by ~~a District Council or~~ a senior decision officer

(1) The procedures in sections 9404 through 9410 apply where an applicant has requested an opportunity to be heard by a ~~*District Council* or by a~~ *senior decision officer* pursuant to subsection 9208(2) or by the *Corporation* pursuant to subsection 9203(2).

(2) These procedures are intended to ensure that opportunities to be heard by a *decision maker* are handled in a way that ensures a fair *hearing*, without being unnecessarily formal.

9404. Counsel

(1) A party to a proceeding under Rule 9400 may be represented by counsel or an agent.

(2) If an applicant, *Approved Person* or *Dealer Member* is represented by counsel or an agent, *Registration Staff* will communicate with the applicant, *Approved Person* or *Dealer Member* through counsel or the agent.

9405. ~~IIROC~~Corporation Staff Notice

(1) If *Registration Staff* recommends ~~that a *District Council* refuse~~refusing to grant, ~~revoke~~revoking, or ~~suspend a *IIROC*~~suspending a *Corporation* approval or that terms and conditions be imposed on an approval or *Membership*, *Registration Staff* must send a letter to the applicant, *Approved Person* or *Dealer Member* giving notice of *Registration Staff's* recommendation and brief reasons for it.

9406. Response of applicant, Approved Person or Dealer Member

(1) In section 9406 a "response" means the applicant, *Approved Person* or *Dealer Member* must inform *Registration Staff* in writing if an applicant, *Approved Person* or *Dealer Member* wishes to be heard before a decision is made on *Registration Staff's* recommendation.

(2) A response must be delivered within 10 *business days* after receipt of ~~*IIROC* staff~~*Registration Staff's* letter, or within such shorter period of time as set out in such letter.

(3) If a response is not delivered within the time set out in *Registration Staff's* letter, *Registration Staff* will send its recommendation to the *decision maker* for consideration.

9407. Choice of written submissions or appearance

(1) Unless otherwise decided by a *decision maker*, an opportunity to be heard will be conducted as an exchange of written submissions. However, an applicant, *Approved Person*, *Dealer Member* or *Registration Staff* may request that the opportunity to be heard be conducted as an appearance:

(i) in the presence of a *decision maker*,

(ii) by telephone conference, or

(iii) by other interactive electronic means acceptable to both *parties*.

(2) A request that an opportunity to be heard be conducted as an appearance must be made to the *decision maker* in writing, with a brief statement of the reasons for making the request, and the other *party* will be given an opportunity to object to the request before the *decision maker* decides whether to grant a request for an appearance.

(3) A decision *maker* may also decide on its own initiative that the opportunity to be heard will be conducted as an appearance, in which case the *decision maker* must promptly inform the *parties* of its decision.

9408. Exchange of written submissions

(1) This section describes the process to be followed if the opportunity to be heard is conducted by exchange of written submissions.

(2) *Registration Staff* must provide the applicant, *Approved Person* or *Dealer Member* with a written submission setting out the facts and law supporting *Registration Staff's* recommendation. *Registration Staff's* submission must be delivered to the applicant, *Approved Person* or *Dealer Member* within 10 *business days* after *Registration Staff* receives the applicant's, *Approved Person's* or *Dealer Member's response* (as defined in section 9406).

(3) An applicant, *Approved Person* or *Dealer Member* must then provide *Registration Staff* with a written submission responding to *Registration Staff's* submission, to be delivered within 10 *business days* after the applicant, *Approved Person,* or *Dealer Member* receives *Registration Staff's* submission.

(4) Subject to agreement of the *parties* or a *decision* of the *decision maker*, there will only be one exchange of written submissions so that the *decision maker* may render a decision without unnecessary delay; however, where the *parties* agree to make further submissions or either of them requests that the *decision maker* allow further submissions, such agreement or request must be made within five *business days* after delivery of the applicant's, *Approved Person's* or *Dealer Member's* submission under subsection 9408(3).

(5) Unless an agreement or request is made under subsection 9408(4), *Registration Staff's* and the applicant's, *Approved Person's* or *Dealer Member's* respective submission will be delivered by *Registration Staff* to the *decision maker* within five *business* days after the applicant's, *Approved Person's* or *Dealer Member's* submission is delivered.

(6) If an agreement or request is made under subsection 9408(4), the submissions of all *parties* will be delivered by *Registration Staff* to the *decision maker* when all submissions have been delivered or the time for their delivery has elapsed.

9409. Appearance before a decision maker

(1) This section describes the process to be followed if the opportunity to be heard is conducted as an appearance.

(2) An appearance before a *decision maker* will generally be an informal proceeding, and the *Rules of Procedure* do not apply.

(3) At an appearance:

(i) the *decision maker* may ask any question and admit any evidence it thinks fit,

(ii) witnesses may be called, examined and cross-examined with the consent of the *decision maker*, and

(iii) the applicant, *Approved Person* or *Dealer Member* and any witnesses may be required to give evidence under oath or affirmation.

9410. Decisions

(1) Where an applicant, *Approved Person* or *Dealer Member* requests that an opportunity to be heard be conducted by exchange of written submissions, but fails to deliver submissions within the required time, the *decision maker* may make its decision on *Registration Staff's* recommendation and submissions without further notice or delay.

PART B - OPPORTUNITIES TO BE HEARD BY THE BOARD

9411. Opportunities to be heard by the Board

(1) The procedures in sections 9412 through 9417 apply where an applicant has requested an opportunity to be heard by the *Board* in relation to an *application* for *Dealer Member Membership* in ~~*IIROC*~~the *Corporation* as set out in section 9205.

(2) These procedures are intended to ensure that opportunities to be heard by the *Board* are handled in a way that ensures a fair *hearing*, without being unnecessarily formal.

9412. ~~IIROC~~Corporation Staff Notice

(1) If ~~*IIROC*~~*Corporation* staff recommends that the *Board* refuse to grant *Membership* in ~~*IIROC*~~the *Corporation*, or that terms and conditions be imposed on *Membership* in ~~*IIROC, IIROC*~~the *Corporation, Corporation* staff must send a letter to the applicant giving notice of ~~*IIROC*~~*Corporation* staff's recommendation and brief reasons for it.

9413. Response of applicant, Approved Person or Dealer Member

(1) In section 9413 a "response" means the applicant must inform ~~*IIROC*~~*Corporation* staff in writing if an applicant wishes to be heard before a decision is made on ~~*IIROC*~~*Corporation* staff's recommendation.

(2) A *response* must be delivered within 10 *business days* after receipt of ~~*IIROC*~~*Corporation* staff's letter, or within such shorter period of time as set out in such letter.

(3) If a response is not delivered within the time set out in ~~*IIROC*~~*Corporation* staff's letter, ~~*IIROC*~~*Corporation* staff will send its recommendation to the *Board* for consideration.

9414. Choice of written submissions or appearance

(1) An opportunity to be heard will be conducted as an exchange of written submissions, unless an applicant or ~~*IIROC*~~*Corporation* staff requests that the opportunity to be heard be conducted as an appearance:

(i) in the presence of the *Board*,

(ii) by telephone conference, or

(iii) by other interactive electronic means acceptable to both *parties*.

(2) A request that an opportunity to be heard be conducted as an appearance must be made to the *Board* in writing, with a brief statement of the reasons for making the request, by delivering a copy of the request to ~~*IIROC*~~the *Corporation*. The other *party* will be given an opportunity to object to the request before the *Board* decides whether to grant a request for an appearance.

(3) The Board may also decide on its own initiative that the opportunity to be heard will be conducted as an appearance, in which case the *Board* must promptly inform the *parties* of its decision.

9415. Exchange of written submissions

(1) This section describes the process to be followed if the opportunity to be heard is conducted by exchange of written submissions.

(2) ~~*IIROC*~~*Corporation* staff must provide the applicant with a written submission setting out the facts and law supporting ~~*IIROC*~~*Corporation* staff's recommendation, which submission must be

delivered to the applicant within 10 *business days* after ~~*IIROC*~~*Corporation* staff receives the applicant's *response* (as defined in section 9413).

(3) An applicant must then provide ~~*IIROC*~~*Corporation* staff with a written submission responding to staff's submission, to be delivered within 10 *business days* after the applicant receives ~~*IIROC*~~*Corporation* staff's submission.

(4) Subject to agreement of the *parties* or a decision of the *Board*:

(i) there will only be one exchange of written submissions so that the *Board* may render a decision without unnecessary delay, and

(ii) where the *parties* agree to make further submissions or either of them requests that the Board allow further submissions, such agreement or request must be made within five *business days* after delivery of the applicant's submission under subsection 9415(3).

(5) Unless an agreement or request is made under subsection 9415(4), ~~*IIROC*~~*Corporation* staff's and the applicant's respective submission will be provided to the *Board* within five *business days* after the applicant's submission is delivered.

(6) If an agreement or request is made under subsection 9415(4), the submissions of all *parties* will be provided to the *Board* when all submissions have been delivered or the time for their delivery has elapsed.

9416. Appearance before the Board

(1) This section describes the process to be followed if the opportunity to be heard is conducted as an appearance.

(2) An appearance before the *Board* will generally be an informal proceeding, and the *Rules of Procedure* do not apply.

(3) At an appearance:

(i) the *Board* may ask any question and admit any evidence it thinks fit,

(ii) witnesses may be called, examined and cross-examined with the consent of the *Board*, and

(iii) the applicant and any witnesses may be required to give evidence under oath or affirmation.

9417. Decisions

(1) Where an applicant requests that an opportunity to be heard be conducted by exchange of written submissions, but fails to deliver submissions within the required time, the *Board* may make its decision on ~~*IIROC*~~*Corporation* staff's recommendation and submissions without further notice or delay.

9418. – 9499. Reserved.

RULE 9500 | ALTERNATIVE DISPUTE RESOLUTION

9501. Introduction

(1) Rule 9500 sets out the requirements relating to a *Dealer Member's* obligation to participate in arbitration programs and ombudsman services approved by ~~*IIROC*~~the *Corporation*.

9502. Participation by a Dealer Member in arbitration

(1) The *Board* may approve, with terms and conditions, one or more arbitration programs or organizations for *Dealer Members* or any class of *Dealer Members*.

(2) A Dealer *Member* must participate in or become a member of an arbitration program or organization approved by the *Board*.

(3) The participation of a *Dealer Member* in, or any decision made under, an arbitration program will not affect ~~*IIROC*~~the *Corporation's* authority, or prevent it from exercising that authority under ~~*IIROC*~~*Corporation requirements*.

(4) If a client requests arbitration, the *Dealer Member* involved must submit to binding arbitration in any dispute between the *Dealer Member* and the client.

(5) The *Dealer Member* must comply with the arbitration program's requirements and decisions.

9503. Participation by a Dealer Member in an ombudsman service

(1) A Dealer *Member* must participate in an ombudsman service approved by the *Board*.

(2) The participation of a *Dealer Member* in, or any recommendations made by, an ombudsman service, will not affect the authority of ~~*IIROC*~~the *Corporation* or prevent it from exercising that authority under ~~*IIROC*~~*Corporation requirements.*

(3) On a client's request, any dispute between a *Dealer Member* and the client must be submitted to the approved ombudsman service.

(4) The eligibility of a dispute for review is made by the ombudsman service based on its terms of reference.

(5) A Dealer *Member* must comply with the ombudsman service's requirements.

(6) The ombudsman's recommendations are non-binding on each participant in the service.

9504. Dealer Members must provide information to ombudsman service

(1) The ombudsman service may ask a *Dealer Member*, or an *Approved Person*, or other *person* subject to ~~*IIROC*~~the *Corporation's* authority for information or *records* relating to a review or investigation.

(2) The *person* in subsection 9504(1) must submit the information requested in the form and manner, including electronic, as prescribed by the ombudsman service.

(3) The ombudsman may not provide ~~*IIROC*~~the *Corporation* with any information or *records* of its service received relating to a review or investigation, except information relating to ~~an *IIROC*~~a *Corporation investigation* or *hearing* allegation that:

(i) the *Dealer Member* provided information to the ombudsman service it knew was false and intended to mislead the ombudsman, or

(ii) the *Dealer Member* failed to provide information as required by section 9504.

9505. –~~9699~~9999. Reserved.

~~RULE 9700 | CANADIAN INVESTOR PROTECTION FUND~~

~~9701. Introduction~~

~~(1) Rule 9700 sets out the authority and obligations of *IIROC*, and the obligations of *Dealer Members*, to the *Canadian Investor Protection Fund*.~~

~~9702. Agreement between the Canadian Investor Protection Fund and IIROC~~

~~(1) *IIROC* is authorized to enter into and perform its obligations under industry agreements or other *arrangements* with the *Canadian Investor Protection Fund*.~~

~~(2) The authority exercised under subsection 9702(1) must be, in the discretion of the *Board*, consistent with the role and mandate of *IIROC* and any agreements in place between *IIROC* and the *Canadian Investor Protection Fund*.~~

~~(3) The *industry* agreement between *IIROC* and the *Canadian Investor Protection Fund* may be amended from time to time.~~

~~(4) The *President*, his or her staff or any other person designated by the *Board* is authorized to execute and deliver any such agreements, or make any such arrangements, and to do all acts and things as may be necessary to permit *IIROC* to exercise its rights or perform its obligations in connection with its agreements with the *Canadian Investor Protection Fund*.~~

~~9703. Industry agreements or other arrangements~~

~~In respect of any industry agreements or arrangements entered into by *IIROC* in accordance with section 9702, a *Dealer Member*:~~

~~(1) must *promptly* pay *IIROC* its regular and special *Canadian Investor Protection Fund* assessments,~~

~~(2) must *provide* to the *Canadian Investor Protection Fund* or to *IIROC* all information required to assess its financial condition or *Canadian Investor Protection Fund* risk of loss,~~

~~(3) acknowledges and consents to the exchange of information relating to its operations, including *information* pertaining to its *employees* or *Approved Persons*, shareholders or any other *persons* permitted by law, or its client's affairs, between *IIROC* and the *Canadian Investor Protection Fund*, in accordance with any information sharing agreements or arrangements made by them,~~

~~(4) must permit the *Canadian Investor Protection Fund* to conduct reviews of its operations in respect of Industry Agreement Reportable Conditions or other agreement or arrangement Reportable Conditions and shall fully cooperate with the *Canadian Investor Protection Fund*, and its staff and advisers, in connection with such reviews,~~

~~(5) must comply with such actions as the *Canadian Investor Protection Fund* may direct *IIROC* to take, or with such actions as *Canadian Investor Protection Fund* may take on behalf of *IIROC* as authorized.~~

~~9704. – 9999. Reserved.~~

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1 RULE 1A. APPLICATION, INTERPRETATION, EXEMPTIONS, AND DEFINITIONS

Application / Interpretation

(i) Requirements under these Rules apply to Dealer Members registered as mutual fund dealers under securities legislation except for mutual fund dealers only registered in Québec.

(ii) Notwithstanding paragraph (i), where a Dealer Member is registered under securities legislation as a mutual fund dealer and an investment dealer, the Dealer Member is exempt from these Rules provided they are in compliance with corresponding requirements established by the Corporation that are applicable to Investment Dealer Members.

Exemptions

The Board of Directors may exempt any Member, Approved Person, or any other person subject to the jurisdiction of the Corporation from the requirements of any Rule provided that the Board is satisfied that doing so would not be prejudicial to the interests of Members, their clients, or the public. In granting an exemption, the Board may impose any terms or conditions that it considers necessary.

Definitions

In these Rules unless the context otherwise specifies or requires:

"**affiliate**" or "**affiliated corporation**" means in respect of two corporations, either corporation if one of them is the subsidiary of the other or if both are subsidiaries of the same corporation or if each of them is controlled by the same person;

"**Appointments Committee**" means the committee, appointed in accordance with Rule 7.1.6, composed of:

(i) four members of the Governance Committee established by the Board, including its Chair, as set out in General By-law No.1, section 12.2,
(ii) two Non-Independent Directors of the Board as set out in General By-law No.1, section 1.1, and
(iii) the President of the Corporation as set out in General By-law No. 1, section 1.1.

"**Approved Person**" means an individual who is a partner, director, officer, compliance officer, branch manager, or alternate branch manager, employee or agent of the Member who (i) is registered or permitted, where required by applicable securities legislation, by the securities commission having jurisdiction, or (ii) submits to the jurisdiction of the Corporation;

"**assets under administration**" means the assets under administration of the business of a Member as prescribed by the Board of Directors from time to time;

"**branch office**" means any office or location from which any dealer business of a Member is conducted;

"**By-laws**" means any By-law of the Corporation from time to time in force and effect;

"**carrying dealer**" means a Member or Investment Dealer Member that carries customer accounts in accordance with Rule 1.1.6 to the extent, at a minimum, of clearing and settling trades, maintaining books and records of customer transactions and the holding of client cash, securities and other property;

"**client name**" means in respect of an account or client property, an account established by a Member for a client in accordance with the By-laws and Rules, and the cash, securities or other property held for such account, where the cash, securities and property is held in the name of and by a person other than the Member, its agent or custodian;

"**control**" or "**controlled**", in respect of a corporation by another person or by two or more corporations, means the circumstances where:

(a) voting securities of the first-mentioned corporation carrying more than 50% of the votes for the election of directors are held, other than by way of security only, by or for the benefit of the other person or by or for the benefit of the other corporations; and

(b) the votes carried by such securities are entitled, if exercised, to elect a majority of the Board of Directors of the first-mentioned corporation,

but where the Board of Directors orders that a person shall, or shall not, be deemed to be controlled by another person, then such order shall be determinative of their relationships in the application of the By-laws, Rules~~, Policies~~ and Forms with respect to that Member;

"**Corporation**" means [Name of New SRO];

"**Form 1**" means the Form 1 prescribed for Members;

"**hearing committee**" means a hearing committee of a District appointed in accordance with Rule 7.1;

"**Hearing Panel**" means a ~~in respect of a Regional Council a~~ hearing panel ~~of a Regional Council~~ appointed pursuant to Rule 7.2~~Section 19.9.~~;

"**individual**" means a natural person;

"**industry member**" means a current or former director, officer, partner or employee of a Member, or an individual who is otherwise suitable and qualified for appointment to a hearing committee.

"**introducing dealer**" means a Member that introduces customer accounts to a carrying dealer in accordance with Rule 1.1.6;

"**Investment Dealer Member**" means a Dealer Member that is registered as an investment dealer in accordance with securities legislation;

"**Member**" means a Dealer Member that is registered as a mutual fund dealer in accordance with securities legislation;

"**monitor**" means a person or company appointed to oversee and report on a Member's activities and to act in furtherance of powers granted by a Hearing Panel;

"**mutual fund dealer**" means a person registered or licensed by a securities commission to deal in mutual fund or investment fund securities, other than a securities dealer;

"**nominee name**" means, in respect of an account or client property, other than client cash held in a trust account of a Member, an account established by a Member for a client in accordance with the By-laws and Rules in which the securities or other property is held by the Member, its agent or its custodian in the name of the Member or its agent or its custodian, for the benefit of the client;

"**Notice of Hearing**" means a notice of hearing given pursuant to ~~Section 20.1~~Rule 7.3.1;

"**ownership interest**" means all direct or indirect ownership of the securities of a Member;

"**public member**" means, in relation to a hearing committee:

(i) a current or retired member of the law society of a province, other than Québec, who is in good standing at the law society, or

(ii) in Québec, a current or retired member of the Barreau du Québec, who is in good standing at the Barreau;

"**records**" means, for the purposes of ~~Section 22~~Rule 6.2~~, Section XX~~, recorded information of every description of a Member or Approved Person of the Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or Rules, including all books of accounts, securities, cash, documents, banking and investment account records, trading and supervisory records, client files and records, accounting and financial statements, audio and video recording, data, minutes, notes and correspondence, whether written, electronically stored or recorded by any other means;

"**related Member**" means a partnership or corporation which:

(a) is a Member; and

(b) is related to a Member in that either of them, or their respective partners, directors, officers, shareholders and employees, individually or collectively, have at least a

20% ownership interest in the other of them, including an interest as a partner or shareholder, directly or indirectly, and whether or not through holding companies;

provided that the Board of Directors may, from time to time, include in, or exclude from this definition any person, and change those included or excluded;

"**Rules**" means these Rules made pursuant to ~~Section 25the By-laws of the Corporation~~ General By-law No.1 and any Forms prescribed thereunder applicable to Members and Approved Persons;

"**securities commission**" means in any jurisdiction in Canada, the commission, person or other authority authorized to administer any legislation relating to trading in securities and/or to the registration or licensing of persons engaged in trading securities;

"**securities legislation**" means any legislation relating to trading in securities in Canada enacted by the Government of Canada or any province or territory of Canada and includes all regulations, rules, orders or other regulatory directions made pursuant thereto by any authorized body including, without limitation, a securities commission;

"**securities related business**" means any business or activity (whether or not carried on for gain) engaged in, directly or indirectly, which constitutes trading or advising in securities for the purposes of applicable securities legislation in any jurisdiction in Canada, including for greater certainty, securities sold pursuant to exemptions under applicable securities legislation;

"**sub-branch**" means any branch office having in total less than 4 Approved Persons and supervised by an Approved Person as required under the Rules who is not normally present at such sub-branch office;

"**subordinated debt**" means any debt the terms of which specify that its holder will not be entitled to receive payment if any payment to any holder of a senior class of debt is in default;

"**subsidiary**", in respect of a corporation and another corporation, means the first mentioned corporation if:

(a) it is controlled by:

(i) that other; or

(ii) that other and one or more corporations each of which is controlled by that other; or

(iii) two or more corporations each of which is controlled by that other; or

(b) it is a subsidiary of a corporation that is that other's subsidiary;

1 RULE 1 - BUSINESS STRUCTURES AND QUALIFICATIONS

1.1 Business Structures

1.1.1 Members

No Member or Approved Person (as defined in ~~By-law 1.1~~Rule 1A) in respect of a Member shall, directly or indirectly, engage in any securities related business (as defined in ~~By-law 1.~~Rule 1~~1~~) except in accordance with the following:

(a) all such securities related business is carried on for the account of the Member, through the facilities of the Member (except as expressly provided in the Rules) and in accordance with the By-laws and Rules, other than:

(i) such business as relates solely to trading in deposit instruments conducted by any Approved Person not on account of the Member; and

(ii) such business conducted by an Approved Person as an employee of a bank and in accordance with the Bank Act (Canada) and the regulations thereunder, or as an employee of a credit union or caisse populaire and in accordance with applicable legislation governing such credit union or caisse populaire, and in each case, in accordance with applicable securities legislation.

(b) all revenues, fees or consideration in any form relating to any business engaged in by the Member is paid or credited directly to the Member and is recorded on the books of the Member;

(c) the relationship between the Member and any person conducting securities related business on account of the Member is that of:

(i) an employer and employee, in compliance with Rule 1.1.4,

(ii) a principal and agent, in compliance with Rule 1.1.5, or

(iii) an introducing dealer and carrying dealer, in compliance with Rule 1.1.6;

(d) the business or trade or style name under which such securities related business is conducted is in accordance with Rule 1.1.7.

1.1.2 Compliance by Approved Persons

Each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1.(c)(i) or (ii) shall comply with the By-laws and Rules as they relate to the Member or such Approved Person.

1.1.3 Service Arrangements

A Member or Approved Person may engage the services of any person including another Member or Approved Person, to provide services to the Member or Approved Person, as the case may be, provided that:

(a) the services do not in themselves constitute securities related business or duties or responsibilities that are required to be performed by the Member or Approved Person engaging the services pursuant to the By-laws, Rules or applicable securities legislation;

(b) any remuneration or compensation in any form in respect of such services shall only be paid or credited by the Member or Approved Person engaging the services, as the case may be, directly to the person providing the services and the payment or credit of such remuneration or compensation shall be recorded in the books and records required to be maintained in accordance with the By-laws and Rules by the Member or Approved Person engaging such services;

(c) the Member or Approved Person engaging the services shall remain responsible for compliance with the By-laws and Rules and any applicable legislation;

(d) any person preparing and maintaining books and records as a service in respect of the business of the Member or Approved Person shall do so in accordance with the requirements of Rule 5, and such books and records shall be available for review by the Member or Approved Person during normal business hours and by the Corporation in accordance with the By-laws and Rules; and

(e) all material terms of the services to be engaged that relate to requirements of the Member or Approved Person under the By-laws, Rules ~~, Policies~~ or Forms shall be evidenced in writing and a copy of such terms, together with any amendments thereto from time to time or termination, shall be provided by the Member or Approved Person promptly to the Corporation upon request, together with any other information relating thereto as may be requested by the Corporation.

1.1.4 Employees

A Member may conduct its business by Approved Persons employed as employees by it provided that:

(a) any such employee is registered or licensed, in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the employee proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the employee as an Approved Person in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the employee relating to the Member's business;

(d) the employee is in compliance with the legislation, By-laws and Rules applicable to the employee as an Approved Person; and

(e) where the Member and the Approved Person employed as an employee have entered into a written agreement, it shall not contain provisions which are inconsistent with an employment relationship or with the requirements set out in paragraphs (a) to (d) inclusive, of Rule 1.1.4.

1.1.5 Agents

A Member may conduct its business by Approved Persons retained or contracted by it as agents provided that:

(a) any such agent is registered or licensed in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the agent proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the agent in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the agent relating to the Member's business;

(d) the agent is in compliance with the legislation, By-laws and Rules applicable to the agent;

(e) the financial institution bonds and insurance policies required to be maintained by the Member pursuant to Rule 4 cover and relate to the conduct of the agent;

(f) all books and records prepared and maintained by the agent in respect of such business of the Member shall be in accordance with Rule 5 and applicable legislation, shall be the property of the Member and shall be available for review by and delivery to the Member during normal business hours;

(g) all such business conducted by the agent is in the name of the Member subject to the provisions of Rule 1.1.7;

(h) the agent shall not conduct securities related business with or in respect of any person other than the Member;

(i) if the agent is engaged in or carrying on any business or activity other than business conducted on behalf of the Member, including any business or activity which is subject to regulation by any regulatory authority other than a securities commission, compliance with the terms of the agreement referred to in paragraph (k) shall be

monitored and enforced directly by the Member and not by or through any other person including another employer or principal of the agent;

(j) the terms or basis on which the agent may be engaged in or carry on any business or activity other than business conducted on behalf of the Member shall not prevent or impair the ability of the Member or the Corporation from monitoring and enforcing compliance by the agent with the terms of the agreement referred to in paragraph (k) or the By-laws or Rules; and

(k) the Member and the agent shall have entered into an agreement in writing, which shall be provided promptly to the Corporation upon request, containing terms which include the provisions of paragraphs (a) to (j), inclusive, and which do not include provisions which are inconsistent with paragraphs (a) to (j), and shall provide the Corporation with a certificate signed by an officer or director of such Member and, upon request by the Corporation, shall provide an opinion of counsel, confirming the agreement is in compliance with such provisions.

1.1.6 Introducing and Carrying Arrangement

(a) **Member Carrying Dealer**. A Member may enter into an arrangement with another Member pursuant to which the accounts of one Member (the "introducing dealer") are carried by the other Member (the "carrying dealer") provided that:

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(i) the arrangement shall satisfy the requirements of a carrying arrangement described in Rule 1.1.6(b);

(ii) an introducing dealer may not introduce accounts to more than one Member, except that a Level 2, 3 or 4 Member may introduce to another Member accounts of clients which are self-directed plans registered for income tax purposes;

(~~v~~iii) the Members shall enter into a written agreement evidencing the arrangement and reflecting the requirements of Rule 1.1.6(b) and such other matters as may be required by the Corporation;

(iv) the arrangement (including the form of agreement referred to in Rule 1.1.6(b)) and any amendment to or termination of the arrangement or agreement, shall have been approved by the Corporation before it is to become effective; and

(v~~i~~) the arrangement shall be in compliance with the Rules and the securities legislation applicable to either of the Members

(b) **Terms of Arrangement**. A Member may enter into an agreement with another Member in accordance with Rule 1.1.6(a) if it satisfies the following requirements:

(i) *Minimum Capital*. The carrying dealer shall maintain at all times minimum capital of a Level 4 Dealer, and the introducing dealer shall maintain at all times minimum capital of a Level 1, 2, 3 or 4 Dealer, as the case may be;

(ii) *Reporting of Client Balances*. In calculating the risk adjusted capital required pursuant to Rule 3.1.1 and Form 1, the carrying dealer shall report all accounts of the clients (introduced by the introducing dealer to the carrying dealer and for whom assets are held in nominee name) on the carrying dealer's Form 1 and Monthly Financial Report;

(iii) *Comfort Deposit*. Any deposit (other than deposits on behalf of clients) provided to the carrying dealer by the introducing dealer pursuant to the terms of the agreement between them shall be segregated in accordance with Rule 3.3 by the carrying dealer and shall be held by the carrying dealer in a separate designated trust account for the introducing dealer;

The deposit provided by the introducing dealer to the carrying dealer shall be reported by the introducing dealer as an allowable asset on its Form 1 and Monthly Financial Report;

(iv) *Segregation of Client Cash and Securities*. The carrying dealer shall be responsible for holding and segregating in accordance with the requirements of Rule 3.3 all cash and securities held for clients introduced to it by an introducing dealer, provided that a Level 3 introducing dealer may hold cash, and a Level 4 introducing dealer may hold cash and securities, for the accounts of clients to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(v) *Trust Accounts*. The carrying dealer shall be responsible for and shall maintain in its name any trust accounts established in respect of cash received for the account of clients introduced to it by the introducing dealer, provided that a Level 3 or 4 introducing dealer may hold cash in such trust accounts to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(vi) *Insurance*. The introducing dealer and carrying dealer shall each maintain minimum insurance in the amounts required and in accordance with Rule 4;

(vii) *Amount of Insurance*. The carrying dealer shall include all accounts introduced to it by the introducing dealer that are held in nominee name in its calculation of the "base amount" asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 4;

(viii) *Disclosure and Acknowledgement on Account Opening*. At the time of opening each client account, the introducing dealer shall ensure that the client receives written disclosure explaining the introducing dealer's relationship to the carrying dealer and the relationship between the client

and the carrying dealer and, in the case of a Level 1 introducing dealer, shall obtain from the client an acknowledgement in writing to the effect that such disclosure has been received by the client;

(ix) *Contracts, Account Statements, Confirmations and Client Communications*. The name and role of each of the carrying dealer and the introducing dealer shall be shown on all contracts, account statements, confirmations and, in the case of a Level 1 introducing dealer, all client communications (as defined in Rule 2.8.1) and advertisements and sales communications (as defined in Rule 2.7.1) sent by either the introducing dealer or the carrying dealer in respect of accounts carried by the carrying dealer. In the case of a Level 1 introducing dealer, the name and role of the carrying dealer shall appear in at least equal size to that of the introducing dealer. The use of business or trade or style names shall be in accordance with Rule 1.1.7 as applicable;

(x) *Annual Disclosure*. A Level 1, 2, 3 or 4 introducing dealer may comply with the disclosure requirements under paragraph (ix) by providing written disclosure at least annually to each of its clients whose accounts are being carried by the carrying dealer, outlining the relationship between the introducing dealer and the carrying dealer and the relationship between the client and the carrying dealer;

(xi) *Clients Introduced to the Carrying Dealer*. Each client introduced to the carrying dealer by the introducing dealer shall be considered a client of the carrying dealer for the purposes of complying with the ~~By-laws and~~ Rules to the extent of the services provided by the carrying dealer;

(xii) *Responsibility for Reporting*. The carrying dealer shall be responsible for sending account statements and confirmations to clients introduced to it by the introducing dealer as required by the ~~By-laws and~~ Rules to the extent such statements and confirmations relate to trading or account positions in respect of which the carrying dealer has provided services. The carrying dealer need not send a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3; and

(xiii) *Responsibility for Compliance*. Unless otherwise specified in Rule 2 or in this Rule 1.1.6, the introducing dealer which is a Level 1 Dealer and its carrying dealer shall be jointly and severally responsible for compliance with the ~~By-laws and~~ Rules for each account introduced to the carrying dealer by the introducing dealer, and in all other cases the introducing dealer shall be responsible for such compliance, subject to the carrying dealer being also responsible for compliance with respect to those functions it agrees to perform under the arrangement entered into under this Rule 1.1.6.

(c) **Investment Dealer Member Carrying Dealer**. A Member may introduce accounts to an Investment Dealer Member subject to the following:

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(i) where the business being carried by the Investment Dealer Member is limited to exchange-traded funds, or platform-traded funds, and does not represent a significant portion of the Member's overall business, the Member shall comply with requirements established by the Corporation that are applicable to Members;

(ii) where a significant portion of the Member's business or business other than trading in exchange traded funds or platform-traded funds is being carried by the Investment Dealer Member, the Member shall comply with requirements established by the Corporation that are applicable to Investment Dealer Members.

1.1.7 Business Names, Styles, Etc.

(a) **Use of Member Name**. Except as permitted pursuant to Rule 1.1.6 with respect to introducing dealers and carrying dealers and subject to Rule 1.1.7(b) and (c), all business carried on by a Member or by any person on its behalf shall be in the name of the Member or a business or trade or style name owned by the Member or an affiliated corporation of the Member.

(b) **Contracts, Account Statements and Confirmations**. Notwithstanding the provisions of paragraph (a), the legal name of the Member shall be included on any contracts, account statements or confirmations of the Member.

(c) **Use of Approved Person Trade Name**. Notwithstanding the provisions of paragraph (a), an Approved Person may conduct any business of the Member in a business or trade name or style name that is not that of, or owned by, the Member or its affiliated corporation if:

(i) the Member has given its prior written consent; and

(ii) in all materials communicated to clients or the public (other than contracts, account statements or confirmations in accordance with (iii)):

(A) the name is used together with the Member's legal name; and

(B) the Member's legal name or a business or trade or style name of the Member is at least equal in size and prominence to the business or trade or style name used by the Approved Person;

(iii) on contracts, account statements or confirmations, the Member's legal name must be at least equal in size and prominence to the business or trade or style name used by the Approved Person.

(d) **Notification of Trade Names**. Prior to the use of any business or style or trade names other than the Member's legal name, the Member shall notify the Corporation.

(e) **Compliance with Applicable Legislation**. Any business or trade or style name used by a Member or Approved Person must comply with the requirements of any applicable legislation relating to the registration of business or trade or style names.

(f) **Single Use of Trade Names**. No Member or Approved Person of such Member shall use any business or trade or style name that is used by any other Member, unless the relationship with such other Member is that of an introducing dealer and carrying dealer, in compliance with Rule 1.1.6.

(g) **Misleading Trade Name**. No Member or Approved Person shall use any business or trade or style name that is deceptive, misleading or likely to deceive or mislead the public.

(h) **Prohibition of Use of Trade Name**. The Corporation may prohibit a Member or Approved Person from using any business or trade or style name in a manner that is contrary to any provision of this Rule 1.1.7 or that is objectionable or contrary to the public interest.

1.2 Individual Qualifications

(1) **Definitions.** For the purposes of this Rule and ~~Policy~~ Rule No. 900,

(a) "continuing education program" ("CE program") means the ~~MFDA's~~ Mutual Fund Dealer Continuing Education program.

(b) "Business Conduct Credit" means one hour of continuing education activity in a business conduct topic area, as prescribed under ~~Policy No.~~ Rule 900.

(c) "cycle" means any 24-month period beginning on December 1st of an odd-numbered year.

(d) "~~MFDA~~ Compliance Credit" means a continuing education activity in an ~~MFDA~~ Mutual Fund Dealer Compliance topic area, as prescribed under Policy No. 900.

(e) "Professional Development Credit" means one hour of continuing education activity in a professional development topic area, as prescribed under ~~Policy No. 9~~Rule 900.

(2) The ~~MFDA~~ CE Program referred to in subsection (1)(a) above, consists of the following components: (i) business conduct; (ii) professional development; and (iii) ~~MFDA~~ Mutual Fund Dealer compliance.

1.2.1 Compliance with Corporation Requirements

Each Member shall ensure that any Approved Person executes and delivers to the Member an agreement in a form as prescribed from time to time by the Corporation agreeing, among other things, to be subject to, comply with and be bound by the By-laws and Rules.

1.2.2 Registration

An Approved Person must have satisfied any applicable proficiency and other registration requirements set out in securities legislation and established by the securities regulatory authority having jurisdiction.

1.2.3 Education, Training and Experience

An Approved Person must not perform an activity that requires registration under securities legislation unless the Approved Person has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

1.2.4 Training and Supervision

(1) **General**. A Member must provide training to its Approved Persons on compliance with ~~MFDA~~ Corporation requirements, securities laws, and applicable laws including, without limitation, requirements under Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), 2.2.6 (Suitability), and 2.1.4 (Identifying, Addressing, and Disclosing Material Conflicts of Interest);

(2) **New Registrant Training and Supervision**. Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective.

1.2.5 Misleading Communications

(1) An Approved Person must not hold themselves out, and a Member must not hold itself or its Approved Persons out, including through the use of a business or trade name, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:

(a) the proficiency, experience, qualifications, or category of registration of the Approved Person, or Member;

(b) the nature of the client's or any other person's relationship, or potential relationship, with the Member or the Approved Person; or

(c) the products or services provided, or to be provided, by the Member or the Approved Person.

(2) For greater certainty, and without limiting Rule 1.2.5(1), an Approved Person who interacts with clients must not use any of the following:

(a) if based partly or entirely on that Approved Person's sales activity or revenue generation, a title, designation, award, or recognition;

(b) a corporate officer title, unless the Member has appointed that Approved Person to that corporate office pursuant to applicable corporate law; or

(c) if the Approved Person's Member has not approved the use by that Approved Person of a title or designation, that title or designation.

1.2.6 Continuing Education (CE)

(a) **Compliance with CE Requirements**. Each Member and each Approved Person shall comply with continuing education requirements applicable to them, as set out under this Rule and ~~Policy No.~~Rule 900.

(b) **Dealing Representative.** For each cycle, every Approved Person who is registered as a dealing representative under Canadian securities legislation must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 ~~MFDA~~ Compliance Credits, in accordance with requirements under ~~Policy No.~~Rule 900.

(c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an Approved Person is not registered as a dealing representative, but is registered as either a chief compliance officer or ultimate designated person under Canadian securities legislation, or is designated by the Member as a branch manager, alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ the Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 ~~MFDA~~ Compliance Credits, in accordance with requirements under ~~Policy No~~Rule~~.~~ 900.

(d) **CE Requirements for a Partial Cycle.**

(i) **Non-Application.** An Approved Person is not required to meet the CE requirement for any component credit specified under Rule 1.2.6(b) or (c), where, in any given cycle, the Approved Person is subject to that component requirement for a period that is less than, or equal to, 2 months.

(ii) **Pro-ration of Credits.** Where an Approved Person is subject to requirements for any CE component credit specified under Rule 1.2.6(b) or (c) for less than a full cycle, and the period in question is greater than 2 months, the Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of ~~Policy No.~~Rule 900.

(e) **Leaves of Absence.** Where an Approved Person is subject to the requirements under Rule 1.2.6(b) or (c), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the CCO can reduce the CE credit requirements applicable to that Approved Person under Rule 1.2.6(b) or (c), in accordance with the applicable provisions under ~~Policy No.~~Rule 900.

(f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under ~~Policy No.~~ Rule 900.

(g) **Evidence of Completion.** Each Member and each Approved Person noted in subsections (b) and (c) above must maintain evidence of completion of CE credits for a cycle, as required under this Rule and ~~Policy No.~~Rule 900, for a 24-month period following the end of that cycle.

(h) **Reporting**. Each Member and each Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under ~~Policy No.~~Rule 900 respecting notification to the Corporation of the completion of CE credits.

(i) Non-compliance.

(i) Where, for any given cycle, an Approved Person does not meet the CE credit requirements of the ~~MFDA~~ continuing education program, that individual shall cease to act as an Approved Person of any Member, until such time as the Corporation has determined that the prescribed CE credit requirements have been met.

(ii) Each Member shall be liable for and pay to the Corporation fees, levies, or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or an Approved Person to comply with the requirements of this Rule or ~~Policy No.~~Rule 900.

1.3 Outside Activity

1.3.1 Definition

For the purpose of the ~~By-laws,~~ Rules ~~and Policies~~, "outside activity" means any activity conducted by an Approved Person outside of the Member:

(a) for which direct or indirect payment, compensation, consideration or other benefit is received or expected;

(b) involving any officer or director position and any other equivalent positions; or

(c) involving any position of influence.

1.3.2 Requirements for Outside Activity

An Approved Person may have, and continue in, an outside activity provided that:

(a) *Not prohibited*. The Corporation and the securities regulatory authority in the jurisdiction in which the Approved Person carries on, or proposes to carry on, the outside activity do not prohibit the Approved Person from engaging in such outside activity;

(b) *Notification*. The Approved Person discloses the outside activity to the Member;

(c) *Approval*. The Approved Person obtains written Member approval of the outside activity prior to engaging in such outside activity;

(d) *Conduct unbecoming*. The outside activity of the Approved Person must not be such as to bring the Corporation, its Members or the mutual fund industry into disrepute; and

(e) *Disclosure*. To the extent that the outside activity could be confused with Member business, clear written disclosure is provided to clients that any activities related to the outside activity are not the business of the Member and are not the responsibility of the Member.

1.4 Reporting Requirements

(a) **Member Reporting**. Every Member must report to the Corporation such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to:

(i) complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events;

(ii) investigations by the Member relating to any of the matters in sub-section (i); and

(iii) information relating to the business and operation of the Member and its Approved Persons.

(b) **Approved Person Reporting.** Every Approved Person must report to the Member such information, in a manner and within such period of time, as may be prescribed

by the Corporation from time to time relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events.

(c) **Failure to Report.** A Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or Approved Person to report any information required to be reported in the manner and within the period of time prescribed by the Corporation.

2 RULE 2 – BUSINESS CONDUCT

2.1 General

2.1.1 Standard of Conduct.

Each Member and each Approved Person of a Member shall:

(a) deal fairly, honestly and in good faith with its clients;

(b) observe high standards of ethics and conduct in the transaction of business;

(c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

(d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

2.1.2 Member Responsible

Each Member shall be responsible for the acts and omissions of each of its Approved Persons and other employees and agents relating to its business for all purposes under the By-laws and Rules.

2.1.3 Confidential Information

(a) All information received by a Member relating to a client or the business and affairs of a client shall be maintained in confidence by the Member and its Approved Persons and other employees and agents. No such information shall be disclosed to any other person or used for the advantage of the Member or its Approved Persons or other employees or agents without the prior written consent of the client or as required or authorized by legal process or statutory authority or where such information is reasonably necessary to provide a product or service that the client has requested.

(b) Each Member shall develop and maintain written policies and procedures relating to confidentiality and the protection of information held by it in respect of clients.

2.1.4 (1) Identifying, addressing and disclosing material conflicts of interest – Member

(a) A Member must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable,

(i) between the Member and the client, and

(ii) between each individual acting on the Member's behalf and the client.

(b) A Member must address all material conflicts of interests between a client and itself, including each individual acting on its behalf, in the best interests of the client.

(c) A Member must avoid any material conflict of interest between a client and the Member, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(d) A Member must disclose in writing all material conflicts of interest identified under Rule 2.1.4(1)(a) to a client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.

(e) Without limiting subsection (d), the information required to be delivered to a client under that subsection must include a description of each of the following:

(i) the nature and extent of the conflict of interest;

(ii) the potential impact on and risk that the conflict of interest could pose to the client;

(iii) how the conflict of interest has been, or will be, addressed.

(f) The disclosure required under subsection (d) must be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language.

(g) A Member must disclose a conflict of interest to a client under subsection (d)

(i) before opening an account for the client if the conflict has been identified at that time, or

(ii) in a timely manner, upon identification of a conflict that must be disclosed under subsection (d) that has not previously been disclosed to the client.

(h) For greater certainty, a Member or Approved Person does not satisfy Rule 2.1.4(1)(b) or requirements under Rule 2.1.4(2)(c) solely by providing disclosure to the client.

2.1.4 (2) Identifying, reporting and addressing material conflicts of interest – Approved Person

(a) An Approved Person must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the Approved Person and the client.

(b) If an Approved Person identifies a material conflict of interest under Rule 2.1.4(2)(a), the Approved Person must promptly report that conflict of interest to their Member.

(c) An Approved Person must address all material conflicts of interest between the client and the Approved Person in the best interest of the client.

(d) An Approved Person must avoid any material conflict of interest between a client and the Approved Person if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(e) An Approved Person must not engage in any trading or advising activity in connection with a material conflict of interest identified by the Approved Person under Rule 2.1.4(2)(a) unless

(i) the conflict has been addressed in the best interest of the client, and

(ii) the Approved Person's Member has given the Approved Person its consent to proceed with the activity.

2.1.5 Borrowing From Clients

No Approved Person shall borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client unless:

(a) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(b) the Approved Person has obtained the written approval of their Member to borrow the money, securities or other assets or accept the guarantee.

2.2 Client Accounts

Definitions.

For the purposes of the By-laws and Rules:

"financial exploitation" means the use or control of, or deprivation of the use or control of, a financial asset of an individual by a person through undue influence, unlawful conduct or another wrongful act;

"temporary hold" means a hold that is placed on the purchase or sale of a security on behalf of a client or on the withdrawal or transfer of cash or securities from a client's account;

"trusted contact person" means an individual identified by a client to a Member or Approved Person whom the Member or Approved Person may contact in accordance with the client's written authorization; and

"vulnerable client" means a client who might have an illness, impairment, disability or aging-process limitation that places the client at risk of financial exploitation.

2.2.1 "Know-Your-Client"

2.2.1(1) Each Member and Approved Person shall take reasonable steps to learn the essential facts relative to each client and to each order or account accepted, and to;

(a) establish the identity of a client and, if the Member or Approved Person has cause for concern, make reasonable inquiries as to the reputation of the client;

(b) ensure that they have sufficient information, in accordance with requirements under ~~Policy~~ Rule 200, and regarding all of the following, to enable the Member or Approved Person to meet their obligations under Rule 2.2.6

(i) the client's personal circumstances;

(ii) the client's financial circumstances;

(iii) the client's investment needs and objectives;

(iv) the client's investment knowledge;

(v) the client's risk profile; and

(vi) the client's investment time horizon.

(c) take reasonable steps to obtain from the client the name and contact information of a trusted contact person, and the client's written authorization for the Member or Approved Person to contact the trusted contact person to confirm or make inquiries about any of the following:

(i) the Member's or Approved Person's concerns about possible financial exploitation of the client;

(ii) the Member's or Approved Person's concerns about the client's mental capacity as it relates to the ability of the client to make decisions involving financial matters;

(iii) the name and contact information of a legal representative of the client, if any;

(iv) the client's contact information.

(d) Subsection (c) does not apply to a Member or Approved Person in respect of a client that is not an individual.

2.2.1(2) For the purpose of establishing the identity of a client that is a corporation, partnership, or trust, the Member or Approved Person must establish the following:

(a) the nature of the client's business;

(b) the identity of any individual who,

(i) in the case of a corporation, is a beneficial owner of, or exercises direct or indirect control or direction over more than 25% of the voting rights attached to the outstanding voting securities of the corporation, or

(ii) in the case of a partnership or trust, exercises control over the affairs of the partnership or trust.

2.2.2 New Accounts

(a) Each new account for a client must be opened by the Member within a reasonable time of the client's instruction to do so. Account numbers must not be assigned unless they are accompanied by the proper name and address for the client.

(b) A New Account Application Form must be completed for each new account of a client. If the New Account Application Form does not include know-your-client information, this must be documented on a separate Know-Your-Client form. Such form or forms shall be duly completed to conform with the requirements of Rule 2.2.1 and shall be signed by the client and dated.

2.2.3 New Account Approval

Each Member shall designate a trading partner, director or officer or, in the case of a branch office, a branch manager reporting directly to the designated partner, director or officer, who shall be responsible for approval of the opening of new accounts and the supervision of account activity. The designated person shall, no later than one business day after the initial transaction date, approve the opening of such account and a record of such approval shall be maintained in accordance with Rule 5.

2.2.4 Updating Client Information

(a) **Definition.** In this Rule, "**material change in client information**" means any information that results in changes to the stated risk profile, investment time horizon or investment needs and objectives of the client or would have a significant impact on the net worth or income of the client.

(b) A Member or Approved Person must take reasonable steps to keep the information required under Rule 2.2.1 current including updating the information within a reasonable time after becoming aware of a material change in client information.

(c) Subject to paragraph (d), the Member must maintain evidence of client instructions regarding any material changes in client information in accordance with ~~Policy~~ Rule 200, Part II (Opening New Accounts) – Changes to KYC Information, paragraph 6. All such changes must be approved by the individual designated in accordance with Rule 2.2.3 as responsible for the approval of the opening of new accounts.

(d) A client signature or other internal controls sufficient to authenticate the client's identity and verify the client's authorization must be used to evidence any change in client name, client address or client banking information.

(e) Without reducing the responsibility of Members in Rule 2.2.1, all Members must at least annually, in writing, request each client to notify the Member if there has been any material change in client information previously provided to the Member or the client's circumstances have materially changed. The date of such request and the date upon which any such client information is received and recorded or amended must be retained.

(f) A Member or Approved Person must review the information collected under Rule 2.2.1(1)(b):

(i) within 12 months when transacting in securities that require registration, under securities legislation, as an exempt market dealer;

(ii) in any other case, no less frequently than once every 36 months.

2.2.5 Know Your Product

(1) A Member must not make investments available to clients unless the Member has taken reasonable steps to:

(a) assess the relevant aspects of the investments, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs;

(b) approve the investments to be made available to clients; and

(c) monitor the investments for significant changes.

(2) An Approved Person must not purchase or sell investments for, or recommend investments to, a client unless the Approved Person takes steps to understand the investment, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs.

(2.1) For the purposes of subsection (2), the steps required to understand the investment are those that are reasonable to enable the Approved Person to meet their obligations under Rule 2.2.6.

(3) An Approved Person must not purchase investments for, or recommend investments to, a client unless the investments have been approved by the Member to be made available to clients.

2.2.6 Suitability Determination

(1) Before a Member or Approved Person opens an account for a client, makes a recommendation for an account of a client, including a recommendation to borrow to invest, purchases, sells, deposits, exchanges, or transfers investments for a client's account, or takes any other investment action for a client, the Member or Approved Person must determine, on a reasonable basis, that the action satisfies the following criteria:

(a) the action is suitable for the client, based on the following factors:

(i) the client's information collected in accordance with Rule 2.2.1 (Know-Your-Client);

(ii) the Member or Approved Person's assessment or understanding of the investment consistent with Rule 2.2.5 (Know-Your-Product);

(iii) the impact of the action on the client's account, including the concentration of investments within the account and the liquidity of those investments;

(iv) the potential and actual impact of costs on the client's return on investment;

(v) a reasonable range of alternative actions available to the Approved Person through the Member, at the time the determination is made;

(b) the action puts the client's interest first.

(2) A Member or Approved Person must review a client's account and the investments in the client's account to determine whether the criteria in subsection (1) are met, and take reasonable steps, within a reasonable time, after any of the following events:

(a) a review must be performed by the Approved Person, when there has been a change in the Approved Person responsible for the client's account at the Member;

(b) the Member or Approved Person becomes aware of a change in an investment in the client's account that could result in the investment or account not satisfying subsection (1);

(c) the Member or Approved Person becomes aware of a material change in the client's information collected in accordance with Rule 2.2.1 that could result in an investment or the client's account not satisfying subsection (1);

(d) the Member or Approved Person performs the periodic review required under Rule 2.2.4(f);

(e) whenever the client transfers assets into an account at the Member.

2.1. If, after performing a suitability determination, a Member or Approved Person has determined that an action taken for a client does not meet requirements under Rule 2.2.6(1),

the Member or Approved Person must advise the client accordingly, make recommendations to address any inconsistencies, and maintain evidence of such advice and recommendations.

2.2. Despite subsection (1), if a Member or Approved Person receives an instruction from a client to take an action that, if taken, does not satisfy subsection (1), the Member or Approved Person may carry out the client's instruction if the Member or Approved Person has

(a) informed the client of the basis for the determination that the action will not satisfy subsection (1);

(b) recommended to the client an alternative action that satisfies subsection (1); and

(c) received recorded confirmation of the client's instruction to proceed with the action despite the determination referred to in paragraph (a).

2.2.7 Relationship Disclosure

Definitions. For the purpose of requirements under Rule 2.2.7, "proprietary product" means a security of an issuer if one or more of the following apply:

(a) the issuer of the security is a connected issuer of the Member;

(b) the issuer of the security is a related issuer of the Member;

(c) the Member or an affiliate of the Member is the investment fund manager or portfolio manager of the issuer of the security.

2.2.7(1) For each new account opened, the Member shall provide written disclosure to the client:

(a) describing the nature of the advisory relationship;

(b) that provides a general description of the products and services the Member will offer to the client, including:

(i) a description of the restrictions on the client's ability to liquidate or resell a security; and

(ii) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the Member provides;

(c) that provides a general description of any limits on the products and services the Member will offer to the client, including whether the Member will primarily or exclusively offer proprietary products to the client, and whether there will be other limits on the availability of products or services;

(d) describing the Member's procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;

(e) stating that the Member must determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client's interests first;

(f) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;

(g) a description of the circumstances under which a Member or Approved Person might disclose information about the client or the client's account to a trusted contact person referred to in Rule 2.2.1(1)(c);

(h) describing the content and frequency of reporting for the account;

(i) that provides a general description of any benefits received, or expected to be received, by the Member or Approved Person from a person or company other than the client in connection with the client's purchase or ownership of an investment through the Member or Approved Person;

(j) disclosure of the operating charges the client might be required to pay related to the client's account;

(k) describing the type of transaction charges, as defined under Rule 5.3(1), that the client might be required to pay;

(l) generally describing the potential impact on a client's investment returns from investment fund management expense fees, other ongoing fees, operating charges, or transaction charges, including their compounding effect over time;

(m) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member, and

(n) a general explanation of the circumstances under which a Member or Approved Person may place a temporary hold under Rule 2.2.8 (Conditions for Temporary Hold) and a description of the notice that will be given to the client if a temporary hold is placed or continued under that Rule.

2.2.7(2) If there is a significant change in respect of the information delivered to the client under this Rule, the Member must take reasonable steps to notify the client of the change in a timely manner, and, if possible, before the Member next

(a) purchases or sells an investment for the client; or

(b) advises the client to purchase, sell, or hold an investment.

2.2.8 Conditions for Temporary Hold

(1) A Member or Approved Person must not place a temporary hold on the basis of financial exploitation of a vulnerable client unless the Member reasonably believes all of the following:

(a) the client is a vulnerable client;

(b) financial exploitation of the client has occurred, is occurring, has been attempted or will be attempted.

(2) A Member or Approved Person must not place a temporary hold on the basis of a client's lack of mental capacity unless the Member reasonably believes that the client does not have the mental capacity to make decisions involving financial matters.

(3) If a Member or Approved Person places a temporary hold referred to in subsection (1) or (2), the Member must do all of the following :

(a) document the facts and reasons that caused the Member or Approved Person to place and, if applicable, to continue the temporary hold;

(b) provide notice of the temporary hold and the reasons for the temporary hold to the client as soon as possible after placing the temporary hold;

(c) review the relevant facts as soon as possible after placing the temporary hold, and on a reasonably frequent basis, to determine if continuing the hold is appropriate;

(d) within 30 days of placing the temporary hold and, until the hold is revoked, within every subsequent 30-day period, do either of the following:

(i) revoke the temporary hold;

(ii) provide the client with notice of the Member's decision to continue the hold and the reasons for that decision.

2.3 Control or Authority

2.3.1 (a) Control or Authority

No Member or Approved Person shall have full or partial control or authority over the financial affairs of a client, including:

(i) accepting or acting upon a power of attorney from a client;

(ii) accepting an appointment to act as a trustee or executor of a client; or

(iii) acting as a trustee or executor in respect of the estate of a client.

(b) Discretionary Trading

No Member or Approved Person shall engage in any discretionary trading.

(c) Exception

Notwithstanding the provisions of paragraph (a), an Approved Person may have full or partial control or authority over the financial affairs of a client provided that:

(i) the client is a Related Person, as defined by the Income Tax Act (Canada), of the Approved Person;

(ii) the Approved Person notifies the Member of the appointment; and

(iii) the Approved Person obtains written Member approval prior to accepting or acting upon the control or authority.

2.3.2 Limited Trading Authorization

A Member or Approved Person may accept a limited trading authorization from a client for the express purpose of facilitating trade execution. In such circumstances a form of limited trading authorization as prescribed by the Corporation must be completed and approved by the compliance officer or branch manager, and retained in the client's file.

2.3.3 Designation

Each trade made pursuant to a limited trading authorization and its corresponding account must be identified as such in the books and records of the Member and on any order documentation.

2.4 Remuneration, Commissions and Fees

2.4.1 (a) Payable by Member Only

Any remuneration in respect of business conducted by an Approved Person on behalf of a Member must be paid by the Member (or its affiliates or its related Members which have received it from the Member) directly to and in the name of the Approved Person.

No Approved Person in respect of a Member shall accept or permit any associate to accept directly or indirectly, any remuneration, gratuity, benefit or any other consideration from any person other than the Member or its affiliates or its related Members, in respect of the business carried out by such Approved Person on behalf of the Member or its affiliates or its related Members.

(b) Payment of Commissions to Unregistered Corporation

For the purpose of this Rule, "unregistered corporation" shall be understood to mean a corporation that is, itself, not registered under securities legislation. Notwithstanding

paragraph (a), where an Approved Person acts as an agent of the Member in compliance with ~~MFDA~~ Rule 1.1.5, any remuneration, gratuity, benefit or other consideration in respect of business conducted by the Approved Person on behalf of a Member may be paid by the Member to an unregistered corporation provided that:

(i) such arrangements are not prohibited or otherwise limited by the relevant securities legislation or securities regulatory authorities;

(ii) the corporation is incorporated under the laws of Canada or a province or territory of Canada;

(iii) the Member, Approved Person and the unregistered corporation have entered into an Agreement in writing, in a form prescribed by the Corporation, in favour of the Corporation, the terms of which provide that:

(A) the Member and Approved Person shall comply with applicable ~~MFDA~~ By-laws and Rules and securities legislation and remain liable to third parties, including clients, irrespective of whether any remuneration, gratuity, benefit or any other consideration is paid to an unregistered corporation and no such payment shall, in and of itself, in any way limit or affect the duties, obligations or liability of the Member or Approved Person under ~~MFDA~~ Rules and applicable securities legislation;

(B) the Member shall engage in appropriate supervision with respect to the conduct of the Approved Person and the unregistered corporation to ensure such compliance as referred to in (A), above; and

(C) the Approved Person and the unregistered corporation shall provide the Member, the applicable securities commission and the ~~MFDA~~ Corporation with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with ~~MFDA~~ the Rules and applicable securities legislation.

(c) Arrangements Prohibited

Paragraph (b) does not apply in respect of any such remuneration, gratuity, benefit or other consideration derived from a client in Alberta.

2.4.2 Referral Arrangements

(a) **Definitions**. For the purpose of this Rule 2.4.2:

(i) "client" includes a prospective client;

(ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to provide or receive a referral fee to or from another person or company; and

(iii) "referral fee" means any benefit provided for the referral of a client to or from a Member or Approved Person.

(b) **Permitted Referral Arrangements**. A Member or Approved Person must not participate in a referral arrangement with another person or company unless:

(i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;

(ii) the Member records all referral fees; and

(iii) the Member ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

(c) **Verifying the Qualifications of the Person or Company Receiving the Referral.** A Member or Approved Person must not refer a client to another person or company unless the Member first takes reasonable steps to satisfy itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

(d) **Disclosing Referral Arrangements to Clients**

(i) The written disclosure of the referral arrangement required under Rule 2.4.2(b)(iii) must include the following:

(A) the name of each party to the agreement referred to under Rule 2.4.2(b)(i);

(B) the purpose and material terms of the agreement, including the nature of the services to be provided by each party;

(C) any conflicts of interest resulting from the relationship between the parties to the agreement and from any other element of the referral arrangement;

(D) the method of calculating the referral fee and, to the extent possible, the amount of the fee;

(E) the category of registration of each registrant that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving

consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;

(F) if a referral is made to a registrant, a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral; and

(G) any other information that a reasonable client would consider important in evaluating the referral arrangement.

(ii) If there is a change to the information set out under Rule 2.4.2(d)(i), the Member or Approved Person must ensure that written disclosure of that change is provided to each client affected by the change as soon as possible and no later than the 30th day before the date on which a referral fee is next paid or received.

2.4.3 Operating Charges

(a) No Member shall impose on any client or deduct from the account of any client any operating charge, as defined under Rule 5.3(1), unless written notice shall have been given to the client:

(i) on the opening of the account; and

(ii) not less than 60 days prior to the imposition or revision of the charge.

2.4.4 Transaction Fees or Charges

Prior to the acceptance of any order in respect of a transaction in a client account, the Member shall disclose to the client any transaction charges and:

(a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;

(b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply;

(c) whether the Member will receive trailing commissions in respect of the security;

(d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security; and

(e) provide a description of the restrictions on the client's ability to liquidate or resell a security.

2.5 Minimum Standards of Supervision

2.5.1 Member Responsibilities

Each Member is responsible for establishing, implementing and maintaining policies and procedures to ensure the handling of its business is in accordance with the By-laws and Rules ~~and Policies~~ and with applicable securities legislation.

2.5.2 Ultimate Designated Person

(a) **Designation.** Each Member must designate an individual registered under applicable securities legislation as an "ultimate designated person" who must be:

(i) the chief executive officer or sole proprietor of the Member;

(ii) an officer in charge of a division of the Member, if dealing in mutual funds occurs only within that division; or

(iii) an individual acting in a capacity similar to that of an officer described in (i) or (ii).

(b) **Responsibilities**. The ultimate designated person must:

(i) supervise the activities of the Member that are directed towards ensuring compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons; and

(ii) promote compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons.

2.5.3 Chief Compliance Officer

(a) **Designation**. Each Member must designate an individual registered under applicable securities legislation as a chief compliance officer" who must be:

(i) an officer or partner of the Member; or

(ii) the sole proprietor of the Member.

(b) **Responsibilities**. The chief compliance officer must:

(i) establish and maintain policies and procedures for assessing compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation;

(ii) monitor and assess compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation;

(iii) report to the ultimate designated person of the Member as soon as possible if the chief compliance officer becomes aware of any circumstances indicating that the Member, or any of its Approved Persons may be in non-compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation and any of the following apply:

(A) the non-compliance reasonably creates a risk of harm to a client;

(B) the non-compliance reasonably creates a risk of harm to the capital markets;

(C) the non-compliance is part of a pattern of non-compliance; and

(iv) submit a report to the board of directors or partners, as frequently as necessary and not less than annually, for the purpose of assessing compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation.

(c) **Alternates**. In the event that a chief compliance officer is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternates who must be qualified as chief compliance officers pursuant to the applicable securities legislation and who shall carry out the responsibilities of the chief compliance officer.

2.5.4 Access to Board

The Member must permit its ultimate designated person and its chief compliance officer to directly access the board of directors or partners of the Member at such times as the ultimate designated person or the chief compliance officer may consider necessary or advisable in view of his or her responsibilities.

2.5.5 Branch Manager

(a) **Designation**. Each Member must designate an individual qualified as a branch manager pursuant to paragraph (d) for each branch office ~~(as defined in By-law 1.1)~~ of the Member. The Member is not required to designate a branch manager for a sub-branch office who is normally present at the office, provided that a branch manager who is not normally present at such sub-branch office supervises its business at the sub-branch office in accordance with the By-laws~~,~~ and Rules. ~~and Policies.~~

(b) Each individual designated as branch manager or alternate branch manager must submit to the jurisdiction of the ~~MFDA~~ Corporation.

(c) Notwithstanding paragraph (a), and subject to the approval of the Corporation, a Member may designate branch managers for branch offices who are not normally present at the offices provided the Member has a system to ensure effective supervision of activities at the branches.

(d) **Proficiency Requirements**. An individual may not be designated by the Member as a branch manager pursuant to paragraph (a) or an alternate branch manager pursuant to paragraph (g) unless the individual has:

(i) met the requirements for a salesperson as prescribed under applicable securities legislation and has passed any one of the following examinations:

(A) the Branch Managers Course Exam offered by the CSI Global Education Inc.;

(B) the Mutual Fund Branch Managers' Examination Course Exam offered by the IFSE Institute; or

(C) the Branch Compliance Officers Course Exam offered by the CSI Global Education Inc.

(e) **Experience Requirements**. In addition to the requirements set out in paragraph (d), each branch manager, except alternate branch managers, in respect of a Member shall:

(i) have acted as a salesperson, trading partner, director, officer or compliance officer registered under the applicable securities legislation for a minimum of two years; or

(ii) have a minimum of two years of equivalent experience to that of an individual described in paragraph (i).

(f) **Responsibilities**. The branch manager must:

(i) supervise the activities of the Member at a branch or sub-branch that are directed towards ensuring compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons; and

(ii) supervise the opening of new accounts and trading activity at the branch office.

(g) **Alternates**. In the event that a branch manager is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternate branch managers who must be qualified as branch managers pursuant to paragraph (d) and who shall carry out the responsibilities of the branch manager, but are not required to be normally present at the branch office.

2.5.6 Currency of Examination

For the purposes of the Rules, an individual is deemed to have not passed an examination or successfully completed a program unless the individual has done so within 36 months before the date the individual applied for registration or such longer period as may be

specified by and subject to relevant requirements as the Corporation may determine if it is satisfied based on the individual's experience that his or her knowledge and proficiency remains relevant and current.

2.5.7 Maintenance of Supervisory Review Documentation

The Member must maintain records of all compliance and supervisory activities undertaken by it and its partners, directors, officers, compliance officers and branch managers pursuant to the By-laws and Rules.

2.5.8 No Delegation

No Member or director, officer, partner, compliance officer, branch manager or alternate branch manager shall be permitted to delegate any supervision or compliance responsibility under the ~~By-laws or~~ Rules in respect of any business of the Member, except as expressly permitted pursuant to the ~~By-laws and~~ Rules.

2.6 Borrowing for Securities Purchases

Each Member shall provide to each client a risk disclosure document containing the information prescribed by ~~the~~ Corporation when

(a) a new account is opened for the client; and

(b) when an Approved Person makes a recommendation for purchasing securities by borrowing, or otherwise becomes aware of a client borrowing monies for the purpose of investment,

provided that a Member is not required to comply with paragraph (b) if such a risk disclosure document has been provided to the client by the Member within the six month period prior to such recommendation or becoming so aware.

2.7 Advertising and Sales Communications

2.7.1 Definitions

For the purposes of the ~~By-laws and~~ Rules:

(a) "advertisement" includes television or radio commercials or commentaries, billboards, internet websites, newspapers and magazine advertisements or commentaries and any published material promoting the business of a Member and any other sales literature disseminated through the communications media; and

(b) "sales communication" includes records, video tapes and similar material, market letters, research reports, and all other published material, except preliminary prospectuses and prospectuses, designed for or use in presentation to a client or a prospective client whether such material is given or shown to them and which includes a recommendation in respect of a security.

2.7.2 General Restrictions

No Member shall issue to the public, participate in or knowingly allow its name to be used in respect of any advertisement or sales communication in connection with its business which:

(a) contains any untrue statement or omission of a material fact or is otherwise false or misleading, including the use of a visual image such as a photograph, sketch, drawing, logo or graph which conveys a misleading impression;

(b) contains an unjustified promise of specific results;

(c) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions;

(d) contains any opinion or forecast of future events which is not clearly labelled as such;

(e) fails to fairly present the potential risks to the client;

(f) is detrimental to the interests of the public, the Corporation or its Members; or

(g) does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction over the Member.

2.7.3 Review Requirements

No advertisement or sales communication shall be issued unless first approved by a partner, director, officer, compliance officer or branch manager who has been designated by the Member as being responsible for advertisements and sales communications.

2.8 Client Communications

2.8.1 Definition

For the purposes of the ~~By-laws and~~ Rules "client communication" means any written communication by a Member or an Approved Person to a client of the Member, including trade confirmations and account statements, other than an advertisement or sales communication.

2.8.2 General Restrictions

No client communication shall:

(a) be untrue or misleading or use an image such as a photograph, sketch, logo or graph which conveys a misleading impression;

(b) make unwarranted or exaggerated claims or conclusions or fail to identify the material assumptions made in arriving at these conclusions;

(c) be detrimental to the interests of clients, the public, the Corporation or its Members;

(d) contravene any applicable legislation or any guideline, policy, rule or directive of any regulatory authority having jurisdiction over the Member; or

(e) be inconsistent or confusing with any information provided by the Member or Approved Person in any notice, statement, confirmation, report, disclosure or other information either required or permitted to be given to the client by a Member or Approved Person under the ~~By-laws,~~ Rules~~, Policies~~ or Forms.

2.8.3 Rates of Return

(a) In addition to complying with the requirements in Rule 2.8.2, any client communication, other than the investment performance report required under Rule 5.3.4, containing or referring to a rate of return regarding a specific account or group of accounts must:

(i) disclose an annualized rate of return calculated in accordance with standard industry practices; and

(ii) explain the methodology used to calculate such rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return.

(b) In addition to complying with the requirements in Rule 2.8.2 and Rule 2.8.3(a), any client communication containing or referring to a rate of return regarding a specific account or group of accounts that is provided by an Approved Person must be approved and supervised by the Member.

2.9 Internal Controls

Every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time.

2.10 Policies and Procedures Manual

Every Member shall establish and maintain written policies and procedures (that have been approved by senior management of the Member) for dealing with clients and ensuring compliance with the By-laws and Rules~~, By-laws and Policies~~ of the Corporation and applicable securities legislation.

2.11 Complaints

Every Member shall establish written policies and procedures for dealing with complaints which ensure that such complaints are dealt with promptly and fairly, and in accordance with the minimum standards prescribed by the Corporation from time to time.

2.12 Transfers of Account

2.12.1 Definitions

For the purposes of the ~~By-laws and~~ Rules:

(a) "account transfer" means the transfer in whole or in part of an account of a client of a Member at the request or with the authority of the client;

(b) "delivering Member" means in respect of an account transfer the Member from which the account of the client is to be transferred; and

(c) "receiving Member" means in respect of an account transfer the Member to which the account of the client is to be transferred.

2.12.2 Transfers

No account transfer shall be affected by a Member without the written authorization of the client holding the account. If an account transfer is authorized by a client, a delivering Member and a receiving Member shall act diligently and promptly in order to facilitate the transfer of the account in an orderly and timely manner.

2.13 Disclosure of [~~MFDA~~Corporation] Membership

2.13.1 Definition.

For the purposes of complying with the ~~MFDA~~ Corporation membership disclosure requirements under this Rule,

"~~MFDA~~ Corporation Logo" means the logo prescribed by the Corporation, from time to time, for use by Members.

2.13.2 Account Statement.

Members must include the ~~MFDA~~ Corporation Logo on the front of each account statement followed by the web address of the official website of the ~~MFDA~~ Corporation~~.~~

2.13.3 Member Website.

Members must include the ~~MFDA~~ Corporation Logo on the Member's homepage followed by a link to the official website of the ~~MFDA~~Corporation.

3 RULE 3 – FINANCIAL AND OPERATIONS REQUIREMENTS

3.1 Capital

3.1.1 Minimum Levels

(a) Each Member shall have and maintain at all times risk adjusted capital greater than zero, and minimum capital in the amounts referred to below for the Level in which the Member is designated, as calculated in accordance with Form 1 and with such requirements as the Corporation may from time to time prescribe:

Level 1 $25,000 for a Member which is an introducing dealer and which satisfies the requirements of Rule 1.1.6(a) and (b), is not a Level 2, 3 or 4 Member and is not otherwise registered in any other category of registration under securities legislation.

Level 2 $50,000 for a Member which does not hold client cash, securities or other property.

Level 3 $75,000 for a Member which does not hold client securities or other property, except client cash in a trust account.

Level 4 $200,000, for any other Member, including a Member which acts as a carrying dealer in accordance with Rule 1.1.6.

For the purposes of the By-laws, Rules~~, Policies~~ and Forms, a Member which is required to maintain minimum capital at an amount referred to above is referred to as a Level 1, 2, 3 or 4 Dealer or Member, as the case may be.

(b) Notwithstanding the provisions of paragraph (a), a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least $100,000.

3.1.2 Notice

If at any time the risk adjusted capital of a Member is, to the knowledge of the Member, less than zero, the Member shall immediately notify the Corporation.

3.2 Capital and Margin

3.2.1 Client Lending and Margin

No Member or Approved Person shall permit the purchase of securities by a client on margin. In addition, no Member or Approved Person shall lend money or extend credit to a client, or provide a guarantee in relation to a loan of money, securities or any other assets to a client, unless any of the following apply:

(a) in the case of a Member, the client is

(i) an Approved Person of the Member, or

(ii) a director, officer, or employee of the Member;

(b) in the case of an Approved Person:

(i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(ii) the Approved Person has obtained the written approval of their Member to lend the money, extend the credit, or provide the guarantee;

(c) the Member is advancing funds to a client in connection with the redemption of mutual fund securities where:

(i) the Member has received prior confirmation of the redemption order from the issuer of the securities;

(ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;

(iii) the client has authorized payment to and retention by the Member of redemption proceeds;

(iv) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(v) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.2 Member Capital

(a) Each Member shall maintain capital in respect of its firm business in accordance with the requirements set out in Form 1.

(b) Each Member shall at all times maintain positive total financial statement capital as calculated in accordance with the requirements set out in Form 1.

3.2.3 Advancing Mutual Fund Redemption Proceeds

No Member shall advance funds or extend credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities unless:

(a) the Member has received prior confirmation of the redemption order from the issuer of the securities;

(b) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;

(c) the client has authorized payment to and retention by the Member of redemption proceeds;

(d) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(e) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.4 Related Member Guarantees

(a) Each Member shall be responsible for and shall guarantee the obligations to clients incurred by each of its related Members ~~(as defined in By-law 1)~~, and each related Member shall be responsible for and shall guarantee the obligations of the Member to its clients on the following basis:

(i) where a Member holds an ownership interest in a related Member, the Member shall provide a guarantee in an amount equal to 100% of the Member's total financial statement capital (as determined in accordance with Form 1);

(ii) where a Member holds an ownership interest in a related Member, the related Member shall provide a guarantee of the Member in an amount equal to the percentage of the related Member's total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage of ownership interest the Member holds in the related Member; and

(iii) where two related Members are related because of a common ownership interest held by the same person(s), each related Member shall provide a guarantee of the other in an amount equal to the percentage of its total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage ownership interest held by the person(s) who holds the common ownership interest.

(b) A guarantee shall not be required at all or in the amount prescribed in accordance with Rule 3.2.4(a) where the Corporation in its discretion determines that a guarantee is not appropriate.

(c) A guarantee shall be required in such greater or lesser amount as prescribed in Rule 3.2.4(a) where the Corporation in its discretion determines that such greater or lesser guarantee amount is appropriate.

(d) A guarantee required pursuant to this Rule 3.2.4 shall be in the form prescribed from time to time by ~~the~~ Corporation.

3.2.5 Notice Regarding Accelerated Payment of Long Term Debt

Each Member shall immediately notify the Corporation of any request or demand by a creditor for accelerated payments or any other payments in addition to those specified under the agreed regular repayment schedule with respect to contingent and long term liabilities owed by the Member.

3.3 Segregation of Client Property

3.3.1 General

Each Member that holds cash, securities or other property of its clients shall hold such cash, securities or property separate and apart from its own property and in trust for its clients in accordance with this Rule 3.3.

3.3.2 Cash

(a) **Trust Account**. All cash held by a Member on behalf of clients shall be held separate and apart from the property of the Member in a designated trust account with a financial institution (which is an acceptable institution for the purposes of Form 1).

(b) **Determination.** Each Member shall determine on a daily basis the amount of cash it holds for clients and that is required to be held in segregation pursuant to this Rule 3.3.

(c) **Deficiency.** In the event of a deficiency in the amount of cash required to be held in trust for a client, the Member shall immediately provide from its own funds an amount necessary to correct the deficiency and any unsatisfied obligation to do so shall be immediately charged to the capital of the Member.

(d) **Notice to Institution**. The Member must advise the financial institution in writing that:

(i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a "trust account";

(ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the Member; and

(iii) the money held in trust may not be used to cover shortfalls in any other accounts of the Member.

(e) **Payment of Interest**. The Member must disclose to clients whether interest will be paid on client cash held in trust and the rate. Notwithstanding this requirement, the Member may retain the interest earned in excess of the amount of interest payable to the client. The Member may only revise the rate of interest upon the delivery of at least 60 days written notice to the client.

3.3.3 Securities

(a) **Internal Locations.** For the purposes of Rule 3.3.1, a Member may hold securities or other investment products within the physical possession or control of the Member segregated and held in trust for clients of the Member, provided that all internal storage locations are designated in the Member's ledger of accounts and the Member has adequate internal accounting controls and systems for safeguarding of securities held for clients.

(b) **External Locations**. For the purposes of Rule 3.3.1, securities or other investment products held beyond the physical possession of the Member must be segregated and held in trust for clients of a Member, or segregated and held by or for a Member, as the case may be, in acceptable securities locations, provided that the written terms upon which such securities or other investment products are deposited and held beyond the physical possession of the Member include provisions to the effect that:

(i) no use or disposition of the securities or products shall be made without the prior written consent of the Member;

(ii) certificates representing the securities or products can be delivered to the Member promptly on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities or products can be transferred either from the location or to another person at the location promptly on demand; and

(iii) the securities or products are held in segregation for the Member or its clients free and clear of any charge, lien, claim or encumbrance of any kind in favour of the depository or institution holding such securities or products.

(c) **Bulk Segregation.** A Member, which holds securities or property of clients in segregation in accordance with Rule 3.3.1 may hold securities or property in bulk segregation provided that the Member identifies in its records the amount and kind of each security or property held for each client. The Member shall determine, for all accounts of each client the market value and number of all securities to be held for the client.

(d) **General Restrictions.** In complying with its obligation to segregate client securities in accordance with Rule 3.3.1, each Member shall ensure that:

(i) a segregation deficiency is not knowingly created or increased; and

(ii) all securities of clients received by the Member are segregated.

(e) **Correction of Segregation Deficiencies**. In the event that a segregation deficiency exists, the Member shall expeditiously take the most appropriate action required to settle the segregation deficiency. If for any reason the deficiency has not been

settled within 30 days of being discovered, the Member shall immediately purchase the securities or property for the account of the client.

3.4 Early Warning

3.4.1 Definitions

The terms and definitions used in this Rule 3.4 shall have the same meanings as used in Form 1, unless otherwise defined in the ~~By-laws or~~ Rules or the context requires.

3.4.2 (a) Designation

A Member shall be designated in early warning according to its capital, profitability and liquidity position from time to time and frequency of designation or at the discretion of the Corporation as provided in this Rule 3.4 if at any time:

(i) *Capital*

Its risk adjusted capital is less than zero; or

(ii) *Liquidity*

Its early warning excess is less than zero; or

(iii) *Profitability*

Its risk adjusted capital at the time of calculation is less than the net loss (before bonuses, income taxes and extraordinary items) for the most recent quarter.

(iv) *Frequency*

It has been designated in early warning more than two times in the preceding twelve months.

(v) *Discretionary*

The condition of the Member, in the sole discretion of the Corporation, is not satisfactory for any reason including, without limitation, financial or operating difficulties, problems arising from record keeping conversion or significant changes in clearing methods, the fact that the Member is a new Member or the Member has been late in any filing or reporting required pursuant to the By-laws and Rules.

(b) Requirements

If a Member is designated in early warning then, notwithstanding the provisions of any By-law or Rule, the following provisions shall apply:

(i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Corporation a letter containing the following:

(A) advice of the fact that any of the circumstances in Rule 3.4.2 are applicable,

(B) an outline of the problems associated with the circumstances referred to in (A),

(C) an outline of the proposal of the Member to rectify the problems identified, and

(D) an acknowledgement that the Member is in early warning category and that the restrictions contained in Rule 3.4.2(b)(iv) apply,

a copy of which letter shall be provided to the Member's auditor;

(ii) the Corporation shall immediately designate the Member as being in early warning and shall deliver to the chief executive officer and chief financial officer a letter containing the following:

(A) advice that the Member is designated as being in early warning,

(B) a request that the Member file its next monthly financial report required pursuant to Rule 3.5.1(a) no later than 15 business days or, in the discretion of the Corporation if considered to be practicable, such earlier time following the end of the relevant month,

(C) a request that the Member respond to the letter as required under Rule 3.4.2(b)(iii) and confirmation that such response, together with the notice received pursuant to Rule 3.4.2(b)(i), will be forwarded to the ~~MFDA Investor Protection Corporation~~ IPF and may be forwarded to any securities commission having jurisdiction over the Member,

(D) advice that the restrictions referred to in Rule 3.4.2(b)(iv) shall apply to the Member,

(E) such other information as the Corporation shall consider relevant;

(iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in Rule 3.4.2(b)(ii), with a copy to be sent to the auditor of the Member, containing the information and acknowledgement required pursuant to Rule 3.4.2(b)(i)(B), (C) and (D), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed;

(iv) if and so long as the Member remains designated as being in early warning, it shall not without the prior written consent of the Corporation:

(A) reduce its capital in any manner including by redemption, re-purchase or cancellation of any of its shares,

(B) reduce or repay any indebtedness which has been subordinated with the approval of the Corporation,

(C) directly or indirectly make any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company, affiliate or associate,

(D) increase its non-allowable assets (as specified by the Corporation) unless a prior binding commitment to do so exists or enter into any new commitments which would have the effect of materially increasing the non-allowable assets of the Member,

(v) if and so long as the Member remains designated as being in early warning, it shall continue to file its monthly financial reports within the time specified pursuant to Rule 3.4.2(b)(ii)(B),

(vi) after the Member is designated as being in an early warning category, the Corporation may conduct an on-site review of the Member's procedures for monitoring capital on a daily basis and prepare a report as to the results of the review, or

(vii) the Corporation may request and the Member shall provide in such time as the Corporation considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Corporation to assess and monitor the financial condition or operations of the Member.

(c) Prohibited Transactions

No Member shall enter into any transaction or take any action, as described in Rule 3.4.2(b)(iv), which, when completed, would have or would reasonably be expected to have the effect on the Member as described in Rule 3.4.2(a), without first notifying the Corporation in writing of its intention to do so and receiving the written approval of the Corporation prior to implementing such transaction or action.

3.4.3 Restrictions

The Corporation may in its discretion, without affording the Member a hearing, prohibit a Member which is designated as being in early warning from opening any new branch offices, hiring any new Approved Persons, opening any new client accounts or changing in any material respect the investment positions of the Member. Any such prohibitions which have been imposed shall continue to apply until the Member is no longer designated as being in early warning, as demonstrated by the latest filed monthly financial report of the Member.

3.4.4 Duration

A Member shall remain designated as being in early warning and subject to the provisions in this Rule 3.4 as are applicable, until the latest filed monthly financial reports of the Member, or such other evidence or assurances as may be appropriate in the circumstances demonstrate, in the opinion of the Corporation that the Member no longer is required to be designated as being in early warning and the Member has otherwise complied with this Rule 3.4.

3.5 Filing Requirements

3.5.1 Monthly and Annual

Each Member shall:

(a) file monthly with the Corporation within 20 business days of the month's end a copy of a financial report of the Member as at the end of each fiscal month or at such other date as may be agreed with the Corporation. Such monthly financial reports shall contain or be accompanied by such information as may be prescribed by the Corporation from time to time; and

(b) file annually with the Corporation two copies of the audited financial statements of the Member as at the end of the Member's fiscal year or as at such other fixed date as may be agreed with the Corporation. Such statements shall be in such form, shall contain such information and shall be supplemented by such additional schedules as the Corporation may from time to time prescribe, and shall be filed through the Member's auditor within 90 days of the date as of which such statements are required to be prepared;

3.5.2 Combined Financial Statements

In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Corporation, be combined (in a manner as set out below) with that of any related Member provided that:

(a) the Member has guaranteed the obligations of such related Member and the related Member has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Corporation and unlimited in amount).

(b) inter-company accounts between the Member and the related Member shall be eliminated;

(c) any minority interests in the related Member shall be eliminated from the capital calculation; and

(d) calculations with respect to the Member and the related Member shall be as of the same date.

3.5.3 Members' Auditors

(a) **Examination**. Every Member's auditor shall examine the accounts of the Member as at the date referred to in Rule 3.5.1 and shall make a report thereon in such form as the Corporation may from time to time prescribe. Each Member's auditor shall also make such additional examinations and reports as the Corporation may from time to time request or direct.

(b) **Standards**. The Member's auditor shall conduct his or her examination of the accounts of the Member in accordance with Canadian generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed. Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Rule 3.6.

(c) **Access to Books and Records**. Every Member's auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined or its affiliates or its related Members, and no Member, affiliate or related company, as the case may be, shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's auditor for the purpose of such examination.

3.5.4 Assessments

(a) **Excessive Attention**. If at any time the Corporation is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Corporation and that it would be in the interests of the Corporation that the Corporation be reimbursed by such Member, the Corporation shall have the power to impose an assessment against such Member.

(b) **Late Filing**. Each Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this Rule 3 within the times prescribed by this Rule 3, the Corporation or the terms of such report, form, financial statement or other information, as the case may be.

3.6 Audit Requirements

3.6.1 Standards

The audit under Rule 3.5 shall be conducted in accordance with Canadian generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It shall include all audit procedures necessary under the circumstances to support the opinions which must be

expressed in the Member's auditor's reports of Parts I and II of Form 1. Because of the nature of the industry, the substantive audit procedures relating to the financial position must be carried out as of the audit date and not as of an earlier date, notwithstanding that the audit is otherwise conducted in accordance with Canadian generally accepted auditing standards.

3.6.2 Scope

(a) *Tests*. The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedure which any Member's auditor would deem necessary under the circumstances. For purposes of this Rule tests fall into two basic categories (as described in CICA Handbook):

(i) specific item tests, whereby the auditor examines individual items which he or she considers should be examined because of their size, nature or method of recording; and

(ii) representative item tests, whereby the auditor's objective is to examine an unbiased selection of items.

The determination of an appropriate sample on a representative basis may be made using either statistical or non-statistical methods in accordance with Canadian generally accepted auditing standards.

In determining the extent of the tests appropriate in sub-sections (i), (ii) and (iii) of (b) below, the Member's auditor should consider the adequacy of the system of internal control and the level of materiality appropriate in the circumstances so that in the auditor's professional judgement the risk of not detecting a material misstatement, whether individually or in aggregate is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning excess).

(b) *Audit Procedures*. The Member's auditor shall as of the audit date:

(i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and substantiate the subsidiary ledger totals with their respective control accounts (see Rule 3.6.4 below relating to Electronic Data Processing);

(ii) account for, by physical examination and comparison with the books and records, all securities in the physical possession of the Member;

(iii) review the reconciliation of all mutual fund companies and financial institutions where a Member operates a nominee name account and review the balancing of all positions. Where a position or account is not in balance according to the records, ascertain that an adequate provision has been made in accordance with the Notes and Instructions for out of balance positions embodied in Statement B of Form 1 for any potential loss;

(iv) review bank reconciliations and by appropriate audit procedures substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;

(v) where a Member operates a nominee name account or has its own securities or investment products, ensure that all custodial agreements are in place for those lodged with acceptable locations and that such agreements satisfy the minimum requirements of the Corporation;

(vi) obtain written confirmation with respect to the following:

(A) bank balances and other deposits;

(B) cash, nominee name positions and deposits with clearing houses and like organizations and cash and nominee name positions with mutual fund companies and financial institutions;

(C) cash and investments loaned or borrowed (including subordinated loans) together with details of collateral received or pledged, if any;

(D) accounts with brokers or dealers;

(E) accounts of directors, partners or officers of the Member held by the Member where the Member operates a nominee name account;

(F) accounts of clients where a Member operates a nominee name account;

(G) statements from the Member's lawyers as to the status of lawsuits and other legal matters pending which, if possible, should include an estimate of the extent of the liabilities so disclosed; and

(H) all other accounts which in the opinion of the Member's Auditor should be confirmed.

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been sent by, and returned directly to, the Member's auditor and second requests are similarly sent to those not replying to the initial request. Appropriate alternative verification procedures must be used where replies to second requests have not been received. For accounts mentioned in (D) and (F) above, the Member’s auditor shall (1) select specific accounts for positive confirmation based on their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and other characteristics such as accounts in dispute, and (2) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (D) and (F) above that are not confirmed positively, the Member’s auditor shall send statements with a request that

any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;

(vii) subject the Statements in Part I and Schedules in Part II of Form 1 to audit tests and/or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (deficiency) of risk adjusted capital are calculated in accordance with the Rules and Form 1 in all material respects in relation to the financial statements taken as a whole;

(viii) obtain a letter of representation from the senior officers of the Member with respect to the fairness of the financial statements including among other things the existence of contingent assets, liabilities and commitments.

(ix) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Cash and Securities in Form 1.

3.6.3 Additional Reporting

In addition, the Member's auditor shall:

(a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in Form 1; and

(b) report on any subsequent events, to date of filing, which have had a material adverse effect on the excess (deficiency) of risk adjusted capital.

3.6.4 Systems Review

The Member's auditors' review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above Audit Requirements should encompass any in-house or service bureau EDP operations. As a result of such review and evaluation the Member's auditor may be able to reduce the extent of detailed checking of clients and other account statements to trial balances and security position records.

3.6.5 Retention

Copies of Form 1 and all audit working papers shall be retained by the Member's auditor for seven years. The two most recent years shall be kept in a readily accessible location. All working papers shall be made available for review by the Corporation and the ~~MFDA Investor Protection Corporation~~ IPF and the Member shall direct its auditor to provide such access on request.

3.6.6 Report to Corporation

If the Member's auditor observes during the regular conduct of his or her audit any material breach of the By-laws or Rules pertaining to the calculation of the Member's financial position, handling and custody of securities and maintenance of adequate records he or she shall make a report to the Corporation.

3.6.7 Reliance

The reports and audit opinions required in respect of a Member under this Rule 3.6 shall be addressed to the Corporation and the ~~MFDA Investor Protection Corporation~~ IPF in conjunction with the Member who shall be entitled to rely on them for all purposes.

3.6.8 Qualification

The reports and audit opinions referred to in this Rule 3.6 shall be signed by an engagement partner on behalf of the Member's auditor who shall (i) be authorized to do so in accordance with applicable legislation in the jurisdiction in which the principal office of the Member is located, (ii) be acceptable to the Corporation in accordance with Rule ~~By-law 11~~8.2.1 and (iii) have acknowledged in writing to the Corporation and the Member that it is familiar with the then current By-laws, Rules, ~~Policies~~ and Forms as they relate to the matters required to be reported on therein.

4 RULE 4 - INSURANCE

4.1 Financial Institution Bond

Every Member shall, by means of a Financial Institution Bond or Bonds (with Discovery Rider attached or Discovery Provisions incorporated in the Bond) and/or mail insurance, effect and keep in force insurance against losses arising as follows:

Clause (A) - Fidelity - Any loss through any dishonest or fraudulent act of any of its employees or agents, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of the employees;

Clause (B) - On Premises - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit, as more fully defined in the Standard Form of Financial Institution Bond (herein referred to as the "Standard Form");

Clause (C) - In Transit and Mail - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit or in the mail;

Clause (D) - Forgery or Alterations - Any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in cash, excluding securities, as more fully defined in the Standard Form;

Clause (E) - Securities - Any loss through having purchased or acquired, sold or delivered, or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments or other documents or written instruments, as more fully defined in the Standard Form.

A Member is not required to effect and keep in force mail insurance where the Member does not use mail for outgoing shipments of cash, securities or other property, negotiable or non-negotiable.

4.2 Notice of Termination

Each Financial Institution Bond maintained by a Member shall contain a rider containing provisions to the following effect:

(i) The underwriter shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:

(A) the expiration of the Bond period specified;

(B) cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;

(C) the taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials; or

(D) taking over of the insured by another institution or entity.

(ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

4.3 Termination or Cancellation

In the event of the take-over of a Member by another institution or entity as described in Rule 4.2(D) the Member shall ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by the Member prior to the effective date of such take-over and the Member shall pay, or cause to be paid, any applicable additional premium.

4.4 Amounts Required

4.4.1 Minimum

The minimum amount of insurance to be maintained for each Clause under Rule 4.1 shall be the greater of:

(a) in the case of a Member designated as a Level 1, 2 or 3 Dealer, $50,000 for each Approved Person up to a maximum of $200,000; and for a Level 4 Dealer, $500,000; and

(b) 1% of the base amount (as defined herein);

provided that for each Clause such minimum amount need not exceed $25,000,000.

4.4.2 Base Amount

For the purposes of this Rule 4.4, the term "base amount" shall mean the greater of:

(a) the net value of cash and securities held by the Member on behalf of clients; and

(b) the total allowable assets of the Member determined in accordance with Statement A of Form 1.

4.5 Provisos

Rules 4.1, 4.2 and 4.4 shall be subject to the following:

(a) the amount of insurance required to be maintained by a Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement;

(b) should there be insufficient coverage, a Member shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaires and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the Corporation;

(c) a Financial Institution Bond maintained pursuant to Rule 4.1 may contain a clause or rider stating that all claims made under the bond are subject to a deductible.

4.6 Qualified Carriers

Insurance required to be effected and kept in force by a Member pursuant to this Rule 4 may be underwritten directly by either (i) an insurer registered or licensed under the laws of Canada or any province of Canada or (ii) any foreign insurer approved by the Corporation. No foreign insurer shall be approved by the Corporation unless the insurer has the minimum net worth required of $75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection and the Corporation is satisfied that the insurer is subject to supervision by regulatory authorities in the jurisdiction of incorporation of the insurer which is substantially similar to the supervision of insurance companies in Canada.

4.7 Global Financial Institution Bonds

Where the insurance maintained by a Member in respect of any of the requirements under this Rule 4 names as the insured or benefits the Member, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:

(a) the Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Member; and

(b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of

  (i) the Member, or

  (ii) any of the Member's subsidiaries whose financial results are consolidated with those of the Member, or

(iii) a holding company of the Member provided that the holding company does not carry on any business or own any investments other than its interest in the Member,

without regard to the claims, experience or any other factor referable to any other person.

5 RULE 5 - BOOKS, RECORDS AND REPORTING

5.1 Requirement for Records

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

(a) blotters, or other records, containing an itemized daily record of:

- (i) all purchases and sales of securities;
- (ii) all receipts and deliveries of securities, including certificate numbers;
- (iii) all receipts and disbursements of cash;
- (iv) all other debits and credits, the account for which each transaction was effected;
- (v) the name of the securities;
- (vi) the class or designation of the securities;
- (vii) the number or value of the securities;
- (viii) the unit and aggregate purchase or sale price; and
- (ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;

(b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:

- (i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;
- (ii) the account for which entered or received;
- (iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and
- (iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4

(c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;

(d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

(e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;

(f) all cheque books, bank statements, cancelled cheques and cash reconciliations;

(g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;

(h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;

(i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and

(j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3;

(k) records which demonstrate compliance with Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), and 2.2.6 (suitability determination) requirements;

(l) records which demonstrate compliance with Rule 2.1.4 (Conflicts of Interest);

(m) records which demonstrate compliance with Rule 1.2.5 (Misleading Communications);

(n) records which demonstrate compliance with complaint handling requirements, prescribed under Rule 2.11, and ~~Policy No. 3~~Rule 300;

(o) records which document correspondence with clients;

(p) records which document compliance and supervision actions taken by the firm;

(q) records which document training prescribed under Rule 1.2.4, ~~Policy~~ Rule 100, and ~~Policy~~ Rule 900;

(r) records which document:

(i) the Member's sales practices, compensation arrangements, and incentive practices;

(ii) other compensation arrangements and incentive practices from which the Member or its Approved Persons or any affiliate or associate of the Member benefit; and

(iii) records which demonstrate compliance with Rule 2.2.8 (Conditions for Temporary Hold).

5.2 Storage Medium

All records and documents required to be maintained by a Member in writing or otherwise may be kept by means of mechanical, electrical, electronic or other devices provided:

(a) such method of record keeping is not prohibited under any applicable legislation;

(b) there are appropriate internal controls in place, to guard against the risk of falsification of the information recorded;

(c) such method provides a means to furnish promptly to the Corporation upon request legible, true and complete copies of those records of the Member which are required to be preserved; and

(d) the Member has suitable back-up and disaster recovery programs.

5.3 Client Reporting

(1) Definitions

For the purpose of client reporting requirements under Rule 5.3:

(a) "book cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations;

(b) "connected issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(c) "cost" for each investment position in the account means, subject to paragraphs (i), (ii) and (iii), either "book cost" or "original cost", provided that only one cost calculation methodology, either "book cost' or "original cost," is used for all positions;

(i) **Investment Positions Opened before December 31, 2015**. For investment positions opened before December 31, 2015, means cost, as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at December 31, 2015 or an earlier date, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date;

(ii) **Investment Positions Transferred In**: For investment positions transferred into an account at the Member, means cost as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at the date of the position's transfer if it is also disclosed in the account statement that it is the market value, not the cost of the investment position, that is being disclosed; and

(iii) **Where Cost Not Determinable:** Where a Member reasonably believes that it cannot determine cost in respect of an investment position, the Member must provide disclosure of that fact in the statement.

(d) "investment" means any asset, excluding cash, held or transacted in an account of the Member;

(e) "marketplace" has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*;

(f) "market value" of a security has the meaning given to it under ~~MFDA~~ Form 1 ~~*Financial Questionnaire and Report*~~;

(g) "operating charge" means any amount charged to a client by a Member in respect of the operation, transfer or termination of a client's account and includes any federal, provincial or territorial sales taxes paid on that amount;

(h) "original cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase;

(i) "related issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(j) "total percentage return" means the cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage;

(k) "trailing commission" means any payment related to a client's ownership of a security that is part of a continuing series of payments to a Member or Approved Person by any party;

(l) "transaction charge" means any amount charged to a client by a Member and includes any federal, provincial or territorial sales taxes paid on that amount.

5.3.1 Delivery of Account Statement

Each Member shall, in a timely manner, send an account statement to each client at least once every three months.

5.3.2 Content of Account Statement

Each account statement must contain the following information:

(a) **General Information.**

(i) the type of account;

(ii) the account number;

(iii) the period covered by the statement;

(iv) the name of the Approved Person(s) servicing the account, if applicable;

(v) the name, address and telephone number of the Member; and

(vi) as applicable, the definition of "book cost" or "original cost", as set out under Rules 5.3(1)(a) and (h).

(b) **Account Activity.**

for each transaction made for or in respect of the client, in an account at the Member, during the period covered by the statement:

(i) the date of the transaction;

(ii) the type of transaction;

(iii) the total value of the transaction;

for each transaction that is a purchase, sale or transfer made for the client, in an account at the Member, during the period covered by the statement:

(iv) the name of the investments;

(v) the number of investments; and

(vi) the price per investment.

(c) **Market Value and Cost Reporting.**

for all investments in an account at the Member:

(i) as at the beginning of the period for which the statement is made:

(A) the total market value of all cash and investments in the account; and

(ii) as at the end of the period for which the statement is made:

(A) the name and quantity of each investment in the account;

(B) the market value of each investment in the account and, if applicable, a notification to the client that there is no active market for the investment and that its value has been estimated. Where a value cannot be reliably determined, the Member must include the following notification or a notification that is substantially similar: "*Market value not determinable*."

(C) the cost of each investment position presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period. Where market value is used to determine the cost of an investment position, disclosure of that fact must be provided in the account statement;

(D) the total cost of all investment positions;

(E) the total market value of each investment position in the account;

(F) any cash balance in the account;

(G) the total market value of all cash and investments in the account; and

(H) disclosure in respect of the party that holds or controls each investment and a description of the way it is held.

(d) **Deferred Sales Charges.** Each account statement must disclose which securities may be subject to deferred sales charges if they are sold.

(e) ~~**MFDA IPC**~~ **IPF Coverage.** Each account statement must include disclosure, as established by the ~~MFDA IPC~~ IPF, respecting ~~MFDA IPC~~ IPF coverage.

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5.3.3 Report on Charges and Other Compensation

(1) **Content of Report on Charges and Other Compensation.** For each 12 month period, a Member must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

(a) the Member's current operating charges which might be applicable to the client's account;

(b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;

(d) the total amount of the operating charges reported under subsection (b) and the transaction charges reported under subsection (c);

(e) if the Member purchased or sold debt securities for the client during the period covered by the report, either of the following:

(i) the total amount of any mark-ups, mark-downs, commissions or other service charges the Member applied on the purchases or sales of debt securities;

(ii) the total amount of any commissions charged to the client by the Member on the purchases or sales of debt securities and, if the Member applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged."

(f) the total amount of each type of payment, other than a trailing commission, that is made to the Member or any of its Approved Persons by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(g) if the Member received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"We received $[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

(2) The information required to be reported under subsection 5.3.3(1) must be delivered in a separate report on charges and other compensation for each account of the client;

(3) A Member may provide a report on charges and other compensation that consolidates into a single report the required information for more than one of a client's accounts if the following apply:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(4) **Consolidated Reporting for Same Accounts**. Where a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3) and a consolidated

performance report is sent to the client pursuant to ~~Policy~~ Rule 700 (Performance Reporting), General Requirements, subsection (2), both consolidated reports must consolidate information for the same accounts.

(5) **Disclosure of Compensation Not Reported.** Where a Member receives compensation or other payments in respect of an investment that is not a security, during the period covered by the report, the Member must either:

(i) disclose the information required under Rule 5.3.3(1) in respect of the investment; or

(ii) indicate that compensation or payments received related to the investment have not been included in the report on charges and compensation being provided to the client.

5.3.4 Performance Report

A Member must deliver a performance report, in respect of all investments required to be reported under Rule 5.3.2, to a client every 12 months, except that the first report delivered after a Member first makes a trade or transfer for a client may be sent within 24 months after that trade or transfer. The performance report must include:

(i) the annual change in the market value of the client's account for the 12-month period covered by the report;

(ii) the cumulative change in the market value of the account, since the account was opened;

(iii) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry, provided for 1, 3, 5 and 10 year periods and since account inception; and

must otherwise meet the requirements set out under ~~Policy~~ Rule 700 (Performance Reporting).

5.3.5 Delivery of Report on Charges and Other Compensation and Performance Report

(1) A report under Rule 5.3.3 – Report on Charges and Other Compensation and a report under Rule 5.3.4 – Performance Report must include information for the same 12 month period and the reports must be delivered together in one of the following ways:

(a) combined with the account statement required to be delivered under Rule 5.3.1;

(b) accompanying the account statement required to be delivered under Rule 5.3.1; or

(c) within 10 days after the delivery of the account statement required to be delivered under Rule 5.3.1.

(2) Subsection (1) does not apply in respect of the first report under Rule 5.3.3 – Report on Charges and other Compensation and the first report under Rule 5.3.4 – Performance Report for a client.

5.3.6 Exempt Market Dealers and Scholarship Plan Dealers – Client Reporting

Where a Member is also registered as:

(a) an exempt market dealer, and a client has purchased a security from the Member that is sold pursuant to an exemption under securities legislation; or

(b) as a scholarship plan dealer, and a client has invested in a scholarship plan through the Member,

the Member must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities legislation.

5.4 Trade Confirmations

5.4.1 Delivery of Confirmations

Every Member who has acted as principal or agent in connection with any trade in a security shall promptly send by prepaid mail or deliver to the client a written confirmation of the transaction containing the information required under Rule 5.4.3.

The Member need not send to its client a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3.

5.4.2 Automatic Plans

Where a transaction relates to a client's participation in an automatic plan that provides for systematic trading in the securities of a mutual fund on a monthly or more frequent basis, and the Member registers the mutual funds pursuant to the plan, the Member is required to send a trade confirmation for the initial transaction only.

5.4.3 Content

Every confirmation of trade sent to a client must set forth the following information:

(a) the quantity and description of the security purchased or sold;

(b) the price per security paid or received by the client;

(c) in the case of a purchase of a debt security, the security's annual yield;

(d) in the case of a purchase or sale of a debt security, either of the following:

(i) the total amount of any mark-up or mark-down, commission or other service charges the Member applied to the transaction;

(ii) the total amount of any commission charged to the client by the Member and, if the Member applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you."

(e) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction;

(f) the name of the Member;

(g) whether or not the Member is acting as principal or agent;

(h) if acting as agent, the name of the person or company from or to or through whom the security was bought or sold;

(i) the date and name of the marketplace, if any, on which the transaction took place, or if applicable, a statement that the transaction took place on more than one marketplace or over more than one day;

(j) the type of the account through which the trade was effected;

(k) the name of the Approved Person, if any, involved in the transaction;

(l) the date of the trade;

(m) the settlement date of the transaction; and

(n) if applicable, that the security was issued by a related or connected issuer of the Member. This information is not required to be provided where the names of the Member and the mutual fund are sufficiently similar to indicate that they are affiliated or related.

5.5 Access to Books and Records

All books, records, documentation and other information required to be kept and maintained by a Member or Approved Person shall be available for review by the Corporation and the Corporation shall be entitled to make copies thereof and retain them for the purposes of carrying out its objects and responsibilities under the applicable securities legislation, the By-laws or the Rules.

5.6 Record Retention

Each Member shall retain copies of the records and documentation referred to in this Rule 5 for seven years from the date the record is created or such other time as may be prescribed by the Corporation.

6 RULE 6 - EXAMINATIONS AND INVESTIGATIONS

6.1 Power to Conduct Examinations and Investigations

The Corporation shall make such examinations of and investigations into the conduct, business or affairs of any Member, Approved Person of a Member or any other person under the jurisdiction of the Corporation pursuant to the By-laws and/or the Rules as it considers necessary or desirable in connection with any matter relating to compliance by such person with:

6.1.1 the By-laws and Rules ~~or Policies~~ of the Corporation;

6.1.2 any securities legislation applicable to such person including any rulings, policies, regulations or directives of any securities commission; or

6.1.3 the by-laws, rules, regulations and policies of any self-regulatory organization.

6.2 Examinations and Investigatory Powers

6.2.1 For the purpose of any examination or investigation pursuant to this ~~By-law~~ Rule, a Member, Approved Person of a Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules may be required by the Corporation to:

(a) submit a report with respect to any matter involved in any such examination or investigation;

(b) produce for inspection any records in the possession or control of the Member, an Approved Person of the Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules that the Corporation believes may be relevant to the examination or investigation;

(c) provide copies of any such records in the manner and form, including electronically, that the Corporation requests;

(d) answer questions with respect to any such matters;

(e) in an investigation, attend and answer questions under oath or otherwise, and any such attendance may be transcribed, recorded electronically, audio-recorded or video-recorded as the Corporation determines;

(f) make any of the above information available through any directors, officers, employees, agents and other persons under the direction or control of the Member, Approved Person or other person under the jurisdiction of the Corporation;

and the Member or person shall be obliged to cooperate in the examination or investigation.

6.2.2 For the purposes of Rule ~~Section 22~~6.2, the Corporation may require production of original records and must provide a receipt for any original records received.

6.2.3 In connection with an examination or investigation, the Corporation:

(a) may, with or without prior notice, enter the business premises of any Member or Approved Person during business hours;

(b) is entitled to free access to all records and electronic systems and other media in which records are stored, and to make and keep copies of all the records that the Corporation believes may be relevant to the examination or investigation, including by taking an image of the computer hard drives of the Member or Approved Person; and

(c) may remove the original of any record obtained under ~~Section 22~~ Rule 6.2.3(b), and where an original record is removed from the premises, the Corporation must provide a receipt for the removed record.

6.2.4 The Member or Approved Person who is aware that the Corporation is conducting an examination or investigation must not conceal or destroy any record that contains information that may be relevant to the examination or investigation.

6.2.5 The Corporation, may, with respect to any information received:

(a) refer a matter to the applicable ~~Regional Council~~ hearing committee for consideration in accordance with the provisions of ~~Section~~ Rule 7.4~~24~~; or

(b) refer a matter to the appropriate securities regulatory authority, self-regulatory organization or law enforcement agency; or

(c) take such other action under the By-laws or Rules which it considers appropriate in the circumstances.

6.3 Co-operation with Other Authorities

6.3.1 Request for Information

Any Member, Approved Person or any person under the jurisdiction of the Corporation, that is requested by any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country to provide information in connection with an investigation of trading in securities shall submit the requested information, books, records, reports, filings and papers to the commission, authority, organization, exchange or market making the request in such manner and form, including electronically, as may reasonably be prescribed by such commission, authority, organization, exchange or market.

6.3.2 Agreements

The Corporation may enter into in its own name agreements or arrangements with any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country for the exchange of any information (including information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession) and for other forms of mutual assistance for market surveillance, investigation, enforcement and other regulatory purposes.

6.3.3 Assistance

The Corporation may provide to any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country any information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession and may provide other forms of assistance for surveillance, investigation, enforcement and other regulatory purposes.

7 RULE 7 - DISCIPLINE

7.1 Hearing Committees

7.1.1 Establishment

A hearing committee must be appointed for each District.

7.1.2 Resident in District

A member of a hearing committee of a District must reside in the District.

7.1.3 Composition of Hearing Committees

7.1.3.1 Industry

Two thirds of the members of a hearing committee, to the extent practicable, must be industry members.

7.1.3.2 Public

One third of the members of a hearing committee, to the extent practicable, must be public members.

7.1.4 Chair

The chair of a hearing committee must be a public member.

7.1.5 Nomination of Hearing Committee Members

7.1.5.1 The Corporation must nominate individuals to be public members and industry members of the hearing committee in its District.

7.1.6 Appointment of Hearing Committee members

7.1.6.1 The Appointments Committee must appoint to the hearing committee of each District a number of suitable and qualified individuals sufficient to conduct hearings in the District.

7.1.6.2 In considering the suitability and qualifications of an individual who is nominated for membership on a hearing committee, the Appointments Committee must take into account the individual's:

(a) general knowledge of business practices and securities laws,

(b) experience,

(c) regulatory background,

(d) availability for hearings,

(e) reputation in the securities industry,

(f) ability to conduct hearings in French or English, and

(g) eligibility to serve in a particular District.

7.1.6.3 An individual who:

(a) is currently or has been within the previous eighteen months an employee of a Member or an affiliate of a Member, or

(b) represents any parties to enforcement or other proceedings under the By-laws or Rules or any person in connection with the By-laws or Rules, or

(c) would otherwise raise a reasonable apprehension of bias with respect to matters that may come before a Hearing Panel,

is not eligible for appointment or membership as a public member of a hearing committee.

7.1.6.4 The Appointments Committee must appoint a chair of each hearing committee.

7.1.7 Term of Appointment

7.1.7.1 Appointment of an individual to a hearing committee is for a three-year term.

7.1.7.2 A hearing committee member may be reappointed to successive terms.

7.1.7.3 If a hearing committee member's term expires without reappointment during a hearing in which the member is serving on the Hearing Panel, the member's term is extended automatically until the completion of the hearing or if the hearing is a hearing on the merits, the proceeding.

7.1.8 Removal

7.1.8.1 The Appointments Committee may remove a hearing committee member who:

(a) ceases to reside in the hearing committee's District,

(b) is precluded from acting as a hearing committee member by a law applicable in the District,

(c) in the Appointments Committee's opinion, will raise a reasonable apprehension of bias with respect to matters that may come before a Hearing Panel, or

(d) for any other reason, ceases to be suitable or qualified to be a hearing committee member.

7.1.8.2 An individual who is removed by the Appointments Committee must not continue to serve on a Hearing Panel in any proceeding.

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7.17.2 Hearing Panels

The authority of a Regional Council hearing committee under Sections 20Rules 7.3 and 24 7.4 shall be exercised on its behalf by a Hearing Panel appointed from the members of the Regional Council hearing committee. Hearing Panels shall be composed of:

(a) 3 members of the Regional Council hearing committee: 1 public representative, who will be the Chair of the Hearing Panel, and 2 industry representatives who may be either elected or appointed members of the Regional Council hearing committee, but shall not include ex-officio members of the council or

(b) 2 members of the Regional Council hearing committee: 1 public representative who will be the Chair of the Hearing Panel and 1 industry representative in the event that an industry representative in (a) above is unable to continue to serve on a Hearing Panel. The Chair of the Hearing Panel shall decide whether or not to proceed with a 2 member Hearing Panel.

Appointments of members to a Hearing Panel shall be made in accordance with the rules of procedures prescribed pursuant to Section 19.12 Rule 7.2.4.

7.1.17.2.1 Cross-Appointments of Members of Hearing Panels

Members of one Regional Council hearing committee shall be eligible to sit on a Hearing Panel in another Region provided that the Chairs of each of the applicable Regional Councils hearing committees consent.

7.1.27.2.2 Duties of the Chair

In addition to the adjudicative duties of the Chair as a member of a Hearing Panel, the Chair shall perform any and all responsibilities set out by the Board in rules of procedure relating to Hearing Panels.

7.1.37.2.3 Procedures Regarding Hearing Panels

The Corporation may prescribe rules of procedures (which may be Policies) in respect of all matters relevant to the appointment of Hearing Panels and the conduct of hearings as contemplated by these Rules By-laws including, without limitation, regarding the assignment of Regional Council hearing committee members to Hearing Panels, conflicts of interest, the eligibility of elected and appointed representatives to sit on Hearing Panels, the ability of Regional Council hearing committee members to continue on a Hearing Panel during an ongoing hearing, compensation of members of Hearing Panels and reimbursement of costs.

7.1.47.2.4 Despite Section 19.9Rule 7.2, 1 public representative of a Regional Council hearing committee may be designated to act on behalf of a Hearing Panel for the purpose of hearing and determining:

(a) an application under Section 24.3Rule 7.4.3 except a review of an application pursuant to Section 24.3.6Rule 7.4.3.6; and

(b) any procedural matter or motion relating to the conduct of a disciplinary hearing under Sections 20Rule 7.3 and 24 7.4 including, without limitation, granting adjournments, setting dates for hearings, and making any other orders or directions that a Hearing Panel is authorized to make under the Corporation's rules of procedure, except a final determination of a disciplinary proceeding.

7.27.3 Disciplinary Hearings

7.2.17.3.1 Notice of Hearing

7.2.1.17.3.1.1 Contents of Notice

Before a Hearing Panel may impose any of the penalties provided for in Section 24.1 Rule 7.4.1 hereof (other than pursuant to the approval of a settlement agreement pursuant to Section 24.4 Rule 7.4.4), the Member, Approved Person or other person, as the case may be, shall have been summoned before a hearing of such Hearing Panel, of which notice shall be given in accordance with such period of time as is provided for in the Corporation's rules of procedure, by way of Notice of Hearing, to the Member or person concerned. Such Notice of Hearing shall be in writing, shall be signed by an officer of the Corporation and contain:

(a) the date, time and place of the hearing;

(b) the purpose of the hearing;

(c) the authority pursuant to which the hearing is held;

(d) a summary of the facts alleged and intended to be relied upon by the Corporation and the conclusions drawn by the Corporation based on the alleged facts; and

(e) the provisions of Sections 20.2 Rules 7.3.2 to 20.47.3.4 inclusive and a description of the penalties and costs which may be imposed pursuant to Sections Rules 24.1 7.4.1 and 24.27.4.2, respectively.

7.2.1.27.3.1.2 Notice Addressed to Corporation

Any notice to a Hearing Panel must be in writing and addressed to the Corporation in care of the office of the Corporation having responsibility for the applicable Regional Council hearing committee.

~~7.2.1.3~~7.3.1.3 Notice to Members in the Case of an Individual

In the case of an individual summoned before a hearing of a Hearing Panel, the Member or Members concerned shall be served with a copy of the Notice of Hearing.

~~7.2.1.4~~7.3.1.4 Publication of Notices

A Notice of Hearing shall be published in the same manner as a notice of penalty pursuant to ~~Section 24.5~~Rule 7.4.5.

~~7.2.1.5~~7.3.1.5 Right to be Heard

The Member or person summoned pursuant to ~~Section 20.1~~Rule 7.3.1 and the Corporation shall be entitled to appear and be heard at the hearing and shall be entitled to be represented by counsel or an agent and to call, examine and cross-examine witnesses and present evidence and submissions.

~~7.2.2~~7.3.2 Reply

A Member or person summoned before a hearing of a Hearing Panel pursuant to a Notice of Hearing shall, within such period of time as is provided for in the Corporation's rules of procedure, serve on the Corporation a reply that either:

~~7.2.2.1~~7.3.2.1 specifically denies (with a summary of the facts alleged and intended to be relied upon by the Member or person, and the conclusions drawn by the Member or person based on the alleged facts) any or all of the facts alleged or the conclusions drawn by the Corporation in the Notice of Hearing; or

~~7.2.2.2~~7.3.2.2 admits the facts alleged and conclusions drawn by the Corporation in the Notice of Hearing and pleads circumstances in mitigation of any penalty to be assessed.

~~7.2.3~~7.3.3 Acceptance of Facts and Conclusions

The Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the Corporation in the Notice of Hearing that are not specifically denied in the reply.

~~7.2.4~~7.3.4 Failure to Reply or Attend

If a Member or person summoned before a hearing of a Hearing Panel by way of Notice of Hearing fails to:

(a) serve a reply in accordance with ~~Section 20.2~~Rule 7.3.2; or

(b) attend at the hearing specified in the Notice of Hearing, notwithstanding that a reply may have been served;

the Hearing Panel may proceed with the hearing of the matter on the date and at the time and place set out in the Notice of Hearing (or on any subsequent date, at any time and

place), without further notice to and in the absence of the Member or person, and the Hearing Panel may accept the facts alleged by the Corporation in the Notice of Hearing as having been proven by the Corporation and may impose any of the penalties described in ~~Section 24.1~~Rule 7.4.1.

~~7.2.5~~7.3.5 Open to the Public

A hearing pursuant to ~~Section 20~~Rule 7.3 shall be open to the public except where the Hearing Panel is of the opinion that intimate financial or personal matters or other matters may be disclosed at the hearing which are of such a nature, having regard to the circumstances, that the desirability of avoiding disclosure thereof in the interests of any person affected or in the public interest outweighs the desirability of adhering to the principle that hearings be open to the public, in which case the Hearing Panel may hold the hearing in camera.

~~7.2.6~~7.3.6 Parties to the Proceedings and Witnesses

~~7.2.6.1~~7.3.6.1 Parties to Proceedings

The parties to proceedings before a Hearing Panel are:

(a) the Corporation, which shall be represented by the Corporation, or any person designated by it; and

(b) in the case of:

(i) an individual, the individual and, in the discretion of the Hearing Panel, the Member concerned;

(ii) a Member, the Member.

~~7.2.6.2~~7.3.6.2 Attendance or Production

Every Member, Approved Person and other person under the jurisdiction of the Corporation may be required by a Hearing Panel:

(a) to attend before it at any of its proceedings and give information respecting any matter involved in the proceeding; and

(b) to produce for inspection and provide copies of any books, records and accounts of such person, or within such person's possession and control, relevant to the matters being considered.

~~7.2.6.3~~7.3.6.3 Required Attendance of Employee or Agent of Member

In the event that a Hearing Panel requires the attendance before it of any employee or agent of a Member who is not under the jurisdiction of the Corporation, the Member shall direct such employee or agent to attend and to give information or make such production as could be required of a person referred to in ~~Section 20.6.2~~Rule 7.3.6.2.

7.2.77.3.7 Reasons

Any decision of a Hearing Panel at a hearing held pursuant to Section 20Rule 7.3 shall be in writing and shall contain a concise statement of the reasons for the decision. Notice of a decision shall be delivered to the Secretary who shall then promptly give notice, in the case of an individual, to the individual and to the Member concerned, or in the case of a Member, to the Member. A copy of the decision shall accompany the notice.

7.37.4 Discipline Powers

7.3.17.4.1 Power of Hearing Panels to Discipline

7.3.1.17.4.1.1 Approved Persons

A Hearing Panel of the applicable Regional Council shall have power to impose upon an Approved Person or any other person under the jurisdiction of the Corporation any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by such person as a result of committing the violation;

(c) suspension of the authority of the person to conduct securities related business for such specified period and upon such terms as the Hearing Panel may determine;

(d) revocation of the authority of such person to conduct securities related business;

(e) prohibition of the authority of the person to conduct securities related business in any capacity for any period of time;

(f) such conditions of authority to conduct securities related business as may be considered appropriate by the Hearing Panel;

if, in the opinion of the Hearing Panel, the person:

(g) has failed to carry out any agreement with the Corporation;

(h) has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Member or of any regulation or policy made pursuant thereto;

(i) has failed to comply with the provisions of any By-law or Rules or Policy of the Corporation;

(j) has engaged in any business conduct or practice which such ~~Regional Council~~ Hearing Panel in its discretion considers unbecoming or not in the public interest; or

(k) is otherwise not qualified whether by integrity, solvency, training or experience.

~~7.3.1.2~~7.4.1.2 Members

A Hearing Panel ~~of the applicable Regional Council~~ shall have power to impose upon a Member any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by the Member as a result of committing the violation;

(c) Suspension of the rights and privileges of the Member (and such suspension may include a direction to the Member to cease conducting securities related business) for such specific period and upon such terms as such Hearing Panel may determine, or, if the rights and privileges have already been suspended under ~~Section 24.3~~Rule 7.4.3, the continuation of such suspension (including a prohibition on the Member conducting securities related business) for such specified period and upon such terms as such Hearing Panel may determine;

(d) termination of any and all of the rights and privileges of Membership;

(e) expulsion of the Member from the Corporation;

(f) such terms and conditions on Membership of the Member as may be considered appropriate by the Hearing Panel;

(g) appointment of a monitor in accordance with ~~Section 24.7~~Rule 7.4.7; and

(h) directions for the orderly transfer of client accounts from the Member;

if, in the opinion of the Hearing Panel, the Member:

(i) has failed to carry out any agreement with the Corporation;

(j) has failed to meet any liabilities to another Member or to the public;

(k) has engaged in any business conduct or practice which the Hearing Panel in its discretion considers unbecoming a Member or not in the public interest;

(l) has ceased to be qualified as a Member by reason of the ownership, integrity, solvency, training or experience of the Member or any of its Approved Persons or

other employees or agents, or any person having an ownership interest in the capital or indebtedness of the Member;

(m) has failed to comply with or carry out the provisions of any of the By-laws or Rules ~~or Policies~~ of the Corporation; or

(n) has failed to comply with or carry out the provisions of any applicable federal or provincial statute relating to its business or of any regulation or policy made pursuant thereto.

~~7.3.1.3~~7.4.1.3 Continuation of Liability

If the rights, privileges or Membership of a Member are suspended or terminated or a Member is expelled from the Corporation, the Member or former Member shall remain liable to the Corporation for all amounts due to the Corporation by it.

~~7.3.1.4~~7.4.1.4 Jurisdiction

(a) *Former Members*. For the purposes of Rules 6.1, 6.2, 6.3, 7.3 and 7.4 ~~Sections 20 to 24~~ inclusive, any Member, Approved Person or other person subject to the jurisdiction of the Corporation shall remain subject to the jurisdiction of the Corporation notwithstanding that such Member has ceased to be a Member, Approved Person or other person subject to the jurisdiction of the Corporation.

(b) *Limitation.* No proceedings shall be commenced pursuant to ~~Section 20.1~~Rule 7.3.1 against a former Member or person referred to in ~~Section 24.1.4~~Rule 7.4.1.4(a) unless a Notice of Hearing has been served upon such Member or person no later than five years from the date upon which such Member or person ceased to be a Member or held the relevant position with the Member, respectively.

~~7.3.2~~7.4.2 Costs

A Hearing Panel may in any case in its discretion require that the Member or Approved Person pay the whole or part of the costs of the proceedings before the Hearing Panel pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 or ~~Section 24.3~~Rule 7.4.3 and any investigations relating thereto.

~~7.3.3~~7.4.3 Applications in Exceptional Circumstances

~~7.3.3.1~~7.4.3.1 Approved Persons

Notwithstanding anything in ~~Section 20~~Rule 7.3 or ~~Section 24~~Rule 7.4,

(a) a Hearing Panel ~~of the applicable Regional Council~~ may, upon application by the Corporation made with or without notice to an Approved Person or any other person under the jurisdiction of the Corporation, impose any of the penalties provided for in ~~Section 24.3.3~~Rule 7.4.3.3 upon the person in the event that:

(i) the registration of the person under any securities legislation in any jurisdiction inside or outside Canada is cancelled, suspended, terminated, subjected to terms and conditions or the person fails to renew any such registration which has lapsed;

(ii) a securities commission, self-regulatory organization, securities regulatory authority, financial services regulator or professional licensing or registration body in any jurisdiction inside or outside Canada cancels, suspends or terminates the rights and privileges of the person;

(iii) the person fails to cooperate with an examination or investigation conducted pursuant to ~~Section 21~~Rule 6;

(iv) the person has failed to carry out any written agreement with the Corporation to take action to comply with any By-law or Rules of the Corporation;

(v) the person has failed to comply with the provisions of any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(vi) the person has been charged with a criminal or regulatory offence relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading and the Hearing Panel determines that such charge likely brings the capital markets into disrepute;

(vii) the Corporation receives information regarding the incapacity of the person, by reason of mental or physical illness, other infirmity or addiction to or excessive use of alcohol or drugs; or

(viii) the person has failed to comply with any penalties, other than the payment of a fine or costs, imposed on the person pursuant to ~~Section 24.1.1~~Rule 7.4.1.1, ~~Section 24.3~~Rule 7.4.3 or ~~Section 24.4~~Rule 7.4.4.

(b) A Hearing Panel may impose a penalty under ~~section 24.3.3~~Rule 7.4.3.3 on an Approved Person or any other person under the jurisdiction of the Corporation on an application made under ~~Section 24.3.1~~Rule 7.4.3.1(a) without notice only if the Hearing Panel determines that proceeding without notice is, in the circumstances, in the public interest, including but not limited to where:

(i) providing notice to the Approved Person or any other person under the jurisdiction of the Corporation, would be likely to result in financial loss or imminent harm to the public, to other Approved Persons or Members, or to the Corporation; or

(ii) the length of time required to arrange for and conduct a hearing pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 would be prejudicial to the public interest.

~~7.3.3.2~~7.4.3.2 Members

Notwithstanding anything in ~~Section 20~~Rule 7.3 or ~~Section 24~~Rule 7.4,

(a) a Hearing Panel ~~of the applicable Regional Council~~ may, upon application by the Corporation made with or without notice to a Member, impose any of the penalties provided for in ~~Section 24.3.3~~Rule 7.4.3.3 upon the Member in the event that:

(i) the registration of the Member as a mutual fund dealer under any securities legislation in any jurisdiction inside or outside Canada is cancelled, suspended, terminated, subjected to terms and conditions or the Member fails to renew any such registration which has lapsed;

(ii) the Member makes a general assignment for the benefit of its creditors or is declared bankrupt or makes an authorized assignment or a proposal to its creditors under the Bankruptcy and Insolvency Act, or a winding-up order is made in respect of the Member or a receiver or other officer with similar powers is appointed in respect of all or any part of the undertaking and property of the Member;

(iii) securities commission, self-regulatory organization, financial services regulator or other securities regulatory authority inside or outside Canada cancels, suspends or terminates the rights and privileges of the Member;

(iv) the Member has failed to maintain the minimum capital required under any By-law, Rule or Form ~~or Policy~~ of the Corporation;

(v) the Member has failed to file with the Corporation a copy of a financial report of the Member as at the end of each fiscal month as required under any By-law or Rules of the Corporation;

(vi) the Member has failed to file with the Corporation copies of the annual audited financial statements of the Member as required under any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(vii) the Member has failed to maintain a Financial Institution Bond or mail insurance as required under any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(viii) the Member has failed to rectify the circumstances causing the Member to be designated in early warning by the Corporation or has failed to comply with terms and conditions imposed on the Member after it was designated in early warning by the Corporation;

(ix) the Member has failed to cooperate with an examination or investigation conducted pursuant to ~~Section 21~~Rule 6.1;

(x) the Member has failed to carry out any written agreement with the Corporation to take action to comply with any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(xi) the Member has failed to comply with the provisions of any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(xii) the Member is in such financial or operating difficulty that a Hearing Panel determines that the Member cannot be permitted to continue to operate

without risk of imminent harm to the public, to other Members or Approved Persons, or to the Corporation;

(xiii) the Member has been charged with a criminal or regulatory offence relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading and the Hearing Panel determines that such charge likely brings the capital markets into disrepute;

(xiv) the Member has given notice of its intention to resign or is not carrying on business as a mutual fund dealer; or

(xv) the Member has failed to comply with any penalties, other than the payment of a fine or costs, imposed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2, ~~Section 24.3~~Rule 7.4.3 or ~~Section 24.4~~Rule 7.4.4.

(b) A Hearing Panel may impose a penalty under ~~section 24.3.3~~Rule 7.4.3.3 on a Member on an application made under ~~Section 24.3.2~~Rule 7.4.3.2(a) without notice only if the Hearing Panel determines that proceeding without notice is, in the circumstances, in the public interest, including but not limited to where:

(i) providing notice to the Member would be likely to result in financial loss or imminent harm to the public, to other Members or Approved Persons, or to the Corporation; or

(ii) the length of time required to arrange for and conduct a hearing pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 would be prejudicial to the public interest.

~~7.3.3.3~~7.4.3.3 Powers of a Hearing Panel

A Hearing Panel shall have the power to impose any of the following penalties upon a Member, Approved Person or other person under the jurisdiction of the Corporation in an application made pursuant to ~~Section 24.3.1~~Rule 7.4.3.1 or ~~Section 24.3.2~~Rule 7.4.3.2:

(a) suspension of any or all of the rights and privileges of Membership or authority of the person to conduct securities related business on such terms and conditions as the Hearing Panel considers appropriate;

(b) terms and conditions on Membership or the authority of the person to conduct securities related business;

(c) direction to immediately cease dealing with the public;

(d) direction for the orderly transfer of client accounts from the Member;

(e) for events other than those referred to in ~~Sections 24.3.1~~Rules 7.4.3.1(a)(vi) and (vii) and ~~Section~~ Rule ~~24.3.2~~ 7.4.3.2(a)(xiii), termination of Membership or prohibition of the authority of the person to conduct securities related business;

(f) for events other than those referred to in ~~Section 24.3.2~~Rule 7.4.3.2(a)(xiii), expulsion of the Member from the Corporation; and

(g) appointment of a monitor in accordance with ~~Section 24.7~~Rule 7.4.7.

~~7.3.3.4~~7.4.3.4 Notice in Certain circumstances

At any stage of an application pursuant to ~~Section 24.3~~Rule 7.4.3, a Hearing Panel may in its discretion require notice of the application to be given to a Member, Approved Person, or other person on such terms and conditions as it considers appropriate, including terms and conditions respecting the timing of notice and any abridging of ordinary hearing processes that the Panel considers fit.

~~7.3.3.5~~7.4.3.5 Other Proceedings

Nothing contained in ~~Section 24.3~~Rule 7.4.3 shall prevent any other proceedings being taken against a Member, Approved Person or other person under the jurisdiction of the Corporation pursuant to any other provisions of ~~Section 24~~Rule 7.4.

~~7.3.3.6~~7.4.3.6 Review of an Application

A Member or person may request a review of any decision made pursuant to ~~Section 24.3~~Rule 7.4.3 within 30 days of notice of the penalty being given in accordance with ~~Section 24.5.3~~Rule 7.4.5.3.

~~7.3.3.7~~7.4.3.7 Timing of a Review

A review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 shall be held before a Hearing Panel ~~of the applicable Regional Council~~ no later than 21 days after the request for the review, unless a Hearing Panel directs or the parties agree otherwise.

~~7.3.3.8~~7.4.3.8 Review Panel

No member of a Hearing Panel who participated in an application pursuant to ~~Section 24.3~~Rule 7.4.3 shall sit on a Hearing Panel constituted for the review of that decision.

~~7.3.3.9~~7.4.3.9 Decision is Final Where no Review

If a Member or person does not request a review of an application within the time prescribed in ~~Section 24.3.6~~Rule 7.4.3.6, then the decision of the Hearing Panel is final and there shall be no further review or appeal of the decision within the Corporation.

~~7.3.3.10~~7.4.3.10 Stay Pending Review of an Application

An order of a Hearing Panel made pursuant to ~~Section 24.3~~Rule 7.4.3 takes effect upon its issuance and remains in effect pending a review under ~~Section 24.3.6~~Rule 7.4.3.6, unless a Hearing Panel directs otherwise.

~~7.3.3.11~~7.4.3.11 Powers of a Hearing Panel on a Review of an Application

A Hearing Panel presiding over the review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 may affirm, quash or vary the decision under review and may make any decision that could have been made by a Hearing Panel under ~~Section 24.3~~Rule 7.4.3~~.~~

~~7.3.3.12~~7.4.3.12 Open to the Public

An application pursuant to ~~Section 24.3~~Rule 7.4.3 and the review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 shall be open to the public except where:

(a) the application proceeds without notice to the Member or person;

(b) the application or review of the application is conducted in writing or the Hearing Panel determines that it is not practical to conduct the application or review of the application in a manner that is open to the public; or

(c) the Hearing Panel is of the opinion that intimate financial or personal matters or other matters may be disclosed at the hearing which are of such a nature, having regard to the circumstances, that the desirability of avoiding disclosure thereof in the interests of any person affected or in the public interest outweighs the desirability of adhering to the principle that hearings be open to the public, in which case the Hearing Panel may conduct the application or review of the application in camera.

~~7.3.3.13~~7.4.3.13 Failure to Pay Fee, Levy, Assessment, Fine or Costs

In the event that:

(a) a Member fails to pay a fee pursuant to ~~Section 14~~Rule 8.5 or ~~Section 15~~ Section 3.4 of General By-law No.1 within the time prescribed in ~~Section 14.3~~Rule 8.5.3 or pursuant to ~~Section 15.2~~Section 3.4 of General By-law No. 1 respectively;

(b) a Member fails to pay a fee, levy or assessment pursuant to any By-law~~, Rule or Policy~~ or Rules of the Corporation within the time prescribed; or

(c) a Member or person fails to pay a fine or costs imposed by a Hearing Panel within the time prescribed by the Hearing Panel;

the Corporation may summarily, without further notice, suspend the rights and privileges of the Member or the authority of the person to conduct securities related business until such fee, levy, assessment, fine or costs is paid.

~~7.3.4~~7.4.4 Settlement Agreements

~~7.3.4.1~~7.4.4.1 Power to Enter into Settlement Agreement

The Corporation or any other person designated by it or the Board of Directors may negotiate a settlement agreement with a Member, Approved Person or other person under the jurisdiction of the Corporation, in respect of any matters for which the Member or person could be penalized on the exercise of the discretion of a Hearing Panel pursuant to ~~Section 24.1~~Rule 7.4.1.

~~7.3.4.2~~7.4.4.2 Contents of Settlement Agreement

A settlement agreement shall be in writing and be signed by or on behalf of the Member or person and shall contain:

(a) a statement of facts sufficient to identify the matter to which the settlement agreement relates;

(b) a reference to any statutes or regulations thereto, By-law~~,~~ or Rules ~~or Policies~~ of the Corporation with which the Member or person has not complied and a statement as to future compliance therewith;

(c) the consent and agreement of the Member or person to the terms of the settlement agreement;

(d) the acceptance of the penalty to which the Member or person could be subject pursuant to ~~Section 24.1~~Rule 7.4.1;

(e) the waiver of the rights of the Member or person to a hearing pursuant to the By-laws and all rights of review thereunder; and

(f) such other matters not inconsistent with ~~Section 24.4.2~~Rule 7.4.4.2(a) to (e), inclusive, which may be agreed upon including, without limitation, the agreement by the Member or person to pay the whole or part of the costs of the investigation and any proceedings relating to the matters which are the subject of the settlement agreement.

~~7.3.4.3~~7.4.4.3 Review and Determination by Hearing Panel

Such settlement agreement shall, on the recommendation of the Corporation, be referred to a Hearing Panel ~~of the applicable Regional Council~~ which shall:

(a) accept the settlement agreement; or

(b) reject it.

A Hearing Panel shall not consider a settlement agreement pursuant to this ~~Section~~ Rule unless notice of the hearing has been given in accordance with such period of time as is provided for in the Corporation's rules of procedure and ~~Section 24.5~~Rule 7.4.5 specifying:

(c) the date, time and place of the hearing; and

(d) the purpose of the hearing with sufficient information to identify the Member or Approved Person involved and the general terms of the settlement agreement.

~~7.3.4.4~~7.4.4.4 Binding Upon Acceptance or Imposition

A settlement agreement shall only become binding in accordance with its terms upon such acceptance and, in such event, the Member or person shall be deemed to have been penalized by a Hearing Panel ~~of the applicable Regional Council~~ for the purpose of giving notice thereof.

~~7.3.4.5~~7.4.4.5 Rejection of Settlement Agreement by Hearing Panel

If a Hearing Panel rejects a settlement agreement pursuant to ~~Section 24.4.3~~Rule 7.4.4.3, the provisions of ~~Sections 20, 21~~Rules 6.1, 7.3 and ~~24.1~~ 7.4.1 shall apply, provided that no member of the Hearing Panel who participated in the deliberations of the Hearing Panel rejecting the settlement agreement shall participate in any hearing conducted by the Hearing Panel with respect to the same matters which are the subject of the agreement.

~~7.3.4.6~~7.4.4.6 Without Prejudice

All negotiations of a settlement agreement shall be without prejudice and the negotiations may not be used as evidence or referred to in any hearing.

~~7.3.4.7~~7.4.4.7 No Appeal of Acceptance or Rejection of Settlement Agreement

The acceptance or rejection of a settlement agreement by a Hearing Panel is final and is not subject to appeal or review pursuant to ~~Section 24.6.3~~Rule 7.4.6.3.

~~7.3.5~~7.4.5 Publication of Notice and Penalties

~~7.3.5.1~~7.4.5.1 Notice Requirements

If and whenever a Member, Approved Person or other person is penalized by a Hearing Panel, notice of the penalty and notice of the disposition of any review from the imposition thereof shall be given forthwith by the Corporation. If such penalty is subject to review the notice shall so indicate.

~~7.3.5.2~~7.4.5.2 Content of Notice

A notice of penalty given pursuant to ~~Section 24.5.1~~Rule 7.4.5.1 shall include a summary of the facts, shall specify the By-law~~,~~ and Rules ~~or Policies~~ violated and the penalty assessed, and shall include the name of the Member or person upon which the penalty is

imposed and, in the case of a penalty imposed upon an Approved Person or other person, shall include the name of the Member employing or retaining such person at the relevant time.

~~7.3.5.3~~7.4.5.3 Method of Giving Notice

A notice of penalty given pursuant to ~~Section 24.5.1~~Rule 7.4.5.1 shall be given:

(a) by publication in a Corporation bulletin;

(b) by delivery of the notice to a news service or newspaper having national distribution;

(c) by delivery of the notice to any securities commission, stock exchange, self-regulatory organization or other securities regulatory authority having jurisdiction over the Member or individual concerned, and

(d) to such other persons, organizations or corporations, and in such other manner as the Hearing Panel imposing the penalty, and/or as the Corporation from time to time, deems advisable.

~~7.3.6~~7.4.6 Effect and Review of Hearing Panels Decisions

~~7.3.6.1~~7.4.6.1 Effect in All Regions

Any decision of a Hearing Panel in respect of a Member, an Approved Person or other person subject to the jurisdiction of the Corporation shall have effect in all regions where the Corporation has jurisdiction, unless and until otherwise ordered by the Board of Directors.

~~7.3.6.2~~7.4.6.2 Review

The Board of Directors shall, upon the application of either the Corporation or the Member made within 30 days of receiving notice of the decision of the Hearing Panel, review the said decision and confirm or modify the decision of the Hearing Panel.

~~7.3.6.3~~7.4.6.3 Review Hearing

With respect to a review pursuant to ~~Section 24.6.2~~Rule 7.4.6.2:

(a) the provisions of ~~Sections 24.1~~Rule 7.4 apply mutatis mutandis to any review by the Board of Directors;

(b) the Board of Directors:

(i) shall consider the record of the proceedings before the Hearing Panel;

(ii) shall permit the parties to appear before it on reasonable notice, with counsel or by agent, to make submissions and the provisions of ~~Section 20.7~~Rule 7.3.7 apply mutatis mutandis; and

(c) Members of the Board of Directors participating in a review hearing pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3 shall not have taken part before the hearing in any proceedings with respect to the decision which is being reviewed. Subject to the provisions of ~~Section 26~~ Rule 7.5, decisions of the Board of Directors pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3 are final and there shall be no further review of such decisions within the Corporation.

(d) For the purposes of a review hearing conducted pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3, the authority of the Board of Directors may be exercised by a committee of the Board of Directors appointed pursuant to ~~Section 3.6.4~~Section 11.1 of General By-law No. 1, provided that such committee shall include 1 public representative of a ~~Regional Council~~ hearing committee who has not taken part in any proceedings with respect to the decision which is being reviewed, which public representative shall be entitled to participate in the review as if he or she was a member of the Board of Directors.

(e) The Board of Directors may in any case in its discretion require that a Member pay the whole or part of the costs of a review hearing pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3.

~~7.3.6.4~~7.4.6.4 Stay of Proceedings

An order of a Hearing Panel takes effect upon its issuance and remains in effect pending a review under ~~Section 24.6.2~~Rule 7.4.6.2, unless the Hearing Panel or the Board of Directors directs otherwise.

~~7.3.6.5~~7.4.6.5 Prohibition Against Review By Court or Tribunal

Except as provided in ~~Section 26~~Rule 7.5, no proceedings shall be taken in any court or other tribunal to question or review any decision, order, direction, declaration or ruling of a Hearing Panel or the Board of Directors or to prohibit or restrain any Hearing Panel or the Board of Directors or their proceedings.

~~7.3.7~~7.4.7 Monitor

~~7.3.7.1~~7.4.7.1 Powers of a Monitor

A monitor appointed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2(g) or ~~Section 24.3.3~~Rule 7.4.3.3(g) shall oversee and report on the Member's activities in accordance with any of the following terms and conditions and for such specified period as the Hearing Panel may determine:

(a) to enter and re-enter the Member's premises and to remain on site to conduct day-to-day monitoring of all of the Member's activities, including but not limited to,

monitoring and review of accounts receivable, accounts payable, client accounts, the Member's banking, any books or records of the Member, trading conducted by or on behalf of the Member for its own account or the account of its clients, payment of any debts or the creation of new debt and any reconciliation required to be completed by the Member;

(b) to make copies of information and to provide copies of such information to the Corporation or any other agency the Hearing Panel determines appropriate;

(c) to provide ongoing reporting of the monitor's findings or observations to the Corporation or any other agency the Hearing Panel determines appropriate;

(d) to monitor compliance by the Member with any terms or conditions which have been imposed on the Member by the Corporation or any other regulator, including but not limited to, compliance with early warning terms and conditions;

(e) to verify and assist with the preparation of any regulatory filings, including but not limited to, the calculation of risk adjusted capital;

(f) to conduct or have conducted an appraisal of the Member's net worth or valuation of any part of the Member's assets;

(g) to assist the Member with the orderly transfer of client accounts;

(h) to pre-authorize any issuance of cheques or payments made by or on behalf of the Member or distribution of any of the Member's assets;

(i) to assist the Member in formulating a process to address deficiencies identified by the Corporation;

(j) to assist the Member in developing and implementing procedures and internal controls to ensure the Member's compliance with any By-law or Rules of the Corporation;

(k) to test and report on the adequacy of the Member's procedures and internal controls; and

(l) any other terms or conditions that the Hearing Panel may determine.

~~7.3.7.2~~7.4.7.2 Expenses of the Monitor

A Hearing Panel may in its discretion require that the Member pay the whole or part of the expenses related to a monitor appointed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2(g) or ~~Section 24.3.3~~Rule 7.4.3.3(g).

7.3.87.4.8 Suspended Members

Subject to any penalties imposed pursuant to Section 24.1Rule 7.4.1 or Section 24.3Rule 7.4.3, during the period of suspension a suspended Member shall not be entitled to exercise the rights and privileges of Membership and without limiting the generality of the foregoing, the suspended Member:

(a) shall not be entitled to attend or vote at meetings pursuant to Section 12.24.1 and Section 12.34.2 of General By-law No. 1;

(b) shall remove from its premises any reference to its Membership in the Corporation;

(c) shall no longer use reference to its Membership in the Corporation in its advertisements, letterhead or other material;

(d) shall be designated as "Suspended" in the Corporation's directory of Members; and

(e) shall continue to be liable for the payment of its Annual Fee pursuant to Section 14Rule 8.5, other fees pursuant to Section 15 and any other fees, levies or assessments pursuant to any By-law, Rule or Policy or Rules of the Corporation.

7.47.5Review of Decisions

7.4.17.5.1 The Corporation or any Member, Approved Person or other person directly affected by a decision of the Board of Directors, a Regional Council hearing committee or the Corporation in respect of which no further review or appeal is provided in the By-laws may request any securities commission given jurisdiction in the matter under its enabling legislation to review such decision and notice in writing of such review shall be given forthwith to the Corporation.

7.4.27.5.2 An order of the Board of Directors takes effect upon its issuance and remains in effect pending a review under Section 26.1 Rule 7.5.1, unless the Board of Directors or a securities commission given jurisdiction in the matter under its enabling legislation directs otherwise.

7.57.6Ombudservice

7.5.17.6.1 Participation in Ombudservice

Each Member shall participate in an ombudservice approved by the Board of Directors. On the client's request, any dispute, claim or controversy between a Member and a client may be submitted by the client to the ombudservice. The determination of eligibility of any dispute, claim or controversy shall be made by the ombudservice according to criteria defined in the service's terms of reference. The Member shall comply with and be bound by the rules, procedures and standards of the ombudservice. The ombudsman's recommendations with respect to any eligible dispute, claim or controversy are non-binding on each Member who participates in the service.

~~7.5.2~~7.6.2 No Effect on Jurisdiction

Neither the participation of a Member in the ombudservice nor any recommendations made by the ombudservice in respect of the Member shall affect the jurisdiction of the Corporation or any of the Board, a ~~Regional Council~~ hearing committee, committee or member, representative or employee of any of them, from exercising any authority under the Articles, By-laws, Rules ~~, Policies~~ or Forms of the Corporation or a ~~Regional Council~~ hearing committee.

~~7.5.3~~7.6.3 Submission of Information

A Member, or any Approved Person, that is requested by the ombudservice to provide information in connection with an investigation shall submit the requested information, books, records, reports, filings and papers to the service in such manner and form, including electronically, as may be prescribed by such service.

8 RULE 8 - MEMBERSHIP MATTERS

8.1 Applications – Submission of Financial Information

~~The~~ An application submitted under section 3.5(1) of General By-law No.1 shall be accompanied by:

8.1.1 financial statements of the applicant as of a date not more than 90 days prior to the date of application for Membership (or as of such other date as the Corporation may require), prepared in accordance with Form 1 and audited by an auditor acceptable to the Corporation;

8.1.2 interim unaudited monthly financial statements, prepared in accordance with Form 1, for the period following the date of the audited financial statement submitted under Rule ~~Section 11.2.1~~8.1.1 up to the most recent month prior to the date of the Membership application;

8.1.3 a report by the applicant's auditor to the effect that, based on his examination of the affairs of the applicant, the applicant keeps a proper system of books and records; and

8.1.4 such additional financial information, if any, relating to the applicant as the Corporation may in its discretion request.

8.2 Review

8.2.1 In the event of a decision of the Board of Directors

(a) to approve an application subject to terms and conditions pursuant to Section ~~11.4.2~~ 3.5(8) of General By-law No.1;

(b) to refuse an application pursuant to Section ~~11.4.3~~ 3.5(8) of General By-law No.1;

(c) to order a period of time in which an applicant may not apply or reapply pursuant to Section ~~11.4.4~~3.5(10) of General By-law No.1; or

(d) to vary terms and conditions in a manner that would be more burdensome to an applicant pursuant to Section 3.5(9) of General By-law No.1~~on 11.5~~,

the Board of Directors shall, upon application by the applicant, made on notice in accordance with the rules of procedure adopted by the Corporation, review the decision and either (i) confirm the decision, or (ii) make such other decision as the Board of Directors considers proper.

8.2.2 If the Board of Directors is required to review a decision pursuant to ~~Section 11.7.1~~ Rule 8.2.1.~~1~~, the applicant and the Corporation shall be entitled to be heard at a hearing

conducted in accordance with the rules of procedure adopted by the Corporation in respect of such hearings including the right to:

(a) receive a summary of the facts and evidence to be relied on by the applicant and the Corporation, as the case may be; and

(b) appear on reasonable notice, with counsel or agent, to call evidence and cross-examine witnesses in order to show cause why (i) in the case of a decision referred to in Rule 8.2.1~~.1Section 11.7.1~~(a) or (b), the application should not be subject to terms and conditions or should not be refused, or (ii) in the case of a decision referred to in ~~Section~~ Rule 8.2.1~~11.7.1~~ (c) and (d), the period of time for reapplying or the variation of terms and conditions should not be imposed.

8.2.3 To the extent not otherwise specified in this ~~Section 11~~Rule 8.2 and Section 3.5 of General By-law No.1, the procedures under ~~Section 20~~ Rule 7 shall be applicable to a hearing under ~~Section~~ Rule ~~11.7.1~~8.2.1~~.1~~, mutatis mutandis.

8.3 Resignations

A Member wishing to resign shall address a letter of resignation to the Board of Directors in care of the Secretary.

8.3.1 Letter of Resignation

A Member which tenders its resignation shall in its letter of resignation state its reasons for resigning and shall file with the Corporation either:

8.3.1.1 a balance sheet of the Member reported upon by the Member's auditor without qualification as of such date as the Corporation may require which balance sheet shall indicate that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or

8.3.1.2 a report from the Member's auditor without qualification that in his opinion the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any;

and a report from the Member's auditor that the Member is in compliance with the ~~By-laws and~~ Rules with respect to the holding of client cash, securities and other property. If the financial information required by Rule 8.3.1.1~~Section 13.2.1~~ or 8.3.1.2~~13.2.2~~ above is not filed with the letter of resignation the Member shall indicate in the letter of resignation the date by which such financial information shall be filed.

8.3.2 Notice of Letter of Resignation

Notice of such letter of resignation shall forthwith be given by the Corporation to the Board of Directors, the ~~applicable Regional Council, all other~~ Members and the securities commissions of all of the provinces of Canada.

8.3.3 Time at Which Resignation Becomes Effective

Unless the Board of Directors, in its discretion otherwise declares, a resignation shall take effect as of the close of business (5:00 p.m. head office local time) on the date the Board of Directors (by its Chair, a Vice-Chair or the President) receives confirmation from the Corporation that, in its opinion, the reports of the Member's auditor pursuant to ~~Section 13~~Rule 8.3.1~~.2~~ are in order and if, to the knowledge of the Corporation after due enquiry, the Member is not indebted to the Corporation and no complaint against the Member or any investigation of the affairs of the Member by the Corporation is pending.

8.3.4 Notice that Resignation Effective

When the resignation of a Member becomes effective the Corporation shall so advise the Member resigning and all other Members, the Board of Directors, the securities commissions of all of the provinces of Canada and such other persons or bodies as the Board of Directors may direct.

8.4 Ownership

No Member shall permit an investor, alone or together with its associates and affiliates, to own:

(a) a significant equity interest in the Member; or

(b) special warrants or any other securities that are convertible or exchangeable at any time in the future, into a significant equity interest in the Member;

without the prior approval of the Corporation.

For the purposes of this ~~By-law 13.9~~Rule 8.4, a significant equity interest means the holding of:

(c) voting securities carrying 20 per cent or more of the votes carried by all voting securities of the Member or of a holding company of a Member;

(d) 20 per cent or more of the outstanding participating securities of the Member or of a holding company of a Member; or

(e) an interest of 20 per cent or more of the total equity in the Member.

Notwithstanding the foregoing, the legal representatives of a deceased person who had been approved by the Corporation as the owner of a significant equity interest may continue as a registered holder or to hold such interest for such period as the Corporation may permit.

8.5 Annual Fee

8.5.1 Calculation of Annual Fee

The Annual Fee for each Member shall be such amount, not less than $3,000 for Members designated as being in Level 1, 2 or 3 under Rule 3.1.1, and not less than $10,000 for Members designated as being in Level 4, determined in accordance with a formula which is based upon the assets under administration of the business of the Member. The Board of Directors in its discretion shall from time to time prescribe such formula and the basis on which the assets under administration of a business are to be determined.

8.5.2 Re-determination of Annual Fee

The Board of Directors may from time to time re-determine the Annual Fee to be payable by any Member. Before any such determination or re-determination is made, the Board of Directors shall obtain, but shall not be obliged to act upon, the recommendation of the Corporation.

8.5.3 Timing of Payment

The Annual Fee shall be paid in quarterly instalments (on the 15th day of July, October, January and April in each year) by each Member beginning not later than the first quarter after admission to Membership of such Member and any additional or redetermined Annual Fee shall be paid in its entirety on or before July 31 in each year.

8.5.4 Exemption from Payment

Notwithstanding the foregoing, in the event that:

8.5.4.1 an applicant for Membership has acquired the whole or a substantial part of the business and assets of a Member or Members in good standing whose Annual Fee for the then current fiscal year has been paid in full and who is or are resigning from Membership concurrently with the admission of the applicant to Membership; and

8.5.4.2 at least a majority in number of the partners of the applicant, in the case of a firm, or at least a majority in number of the directors and at least a majority in number of the officers of the applicant, in the case of a corporation, are partners, or directors and officers, as the case may be, of the retiring Member or Members;

then the applicant, if the Board of Directors so approves, shall be exempted from payment of the Annual Fee for the then current fiscal year.

8.6 Other Fees

8.6.1 Power to Make Assessment

Notwithstanding ~~Section 14~~ Rule 8.5, the Board of Directors shall have power to make an assessment in any fiscal year upon each Member on account of:

8.6.1.1 any extraordinary costs and expenses of the Corporation incurred in connection with the review and/or approval of any reorganization, takeover or other substantial change in the business, structure or affairs of a Member;

8.6.1.2 fees levied by the Corporation in connection with:

(a) exemption application filings or any other such filing fees which the Board of Directors in its discretion may determine from time to time;

(b) a Member changing its name from that which is shown on the most recent Membership List; or

(c) an application for Membership under ~~Section 10~~ Section 3.5 of General By-law No. 1; or

8.6.1.3 assessments or levies made by any customer or investor protection or compensation fund or plan in respect of which Members of the Corporation are required to participate.

8.6.1.4 assessments or levies in respect of Members of the Corporation made by the Ombudservice approved by the Board of Directors.

8.6.2 Timing of Payment

Each Member shall pay the amount so assessed upon it within thirty days after receiving written notification thereof from the Corporation.

9 RULE 100 – NEW REGISTRANT TRAINING AND SUPERVISION

Introduction

This ~~Policy~~ Rule provides guidance on how to comply with ~~MFDA~~ Rule 1.2.4 which requires all Members to develop and document a training and supervision program for their newly-registered salespersons. With respect to supervision, this ~~Policy~~ Rule sets out standards for new registrants that are in addition to the supervision requirements set out in ~~MFDA Policy~~ Rule 200 entitled "Minimum Standards for Account Supervision", that apply to all salespersons.

Training Program

~~MFDA~~ Rule 1.2.4 requires all newly-registered salespersons to complete a training program within 90 days of being registered with the relevant provincial securities commission.

A Member's training program should cover, at a minimum, the following topics:

General Knowledge: provide an overview of the Member and the industry and cover the salesperson's role, including the range of permitted activities under the salesperson's license.

Product Knowledge: provide a detailed orientation of the product lines offered by the Member.

Advising the Client: review the practical skills required to obtain and interpret know-your-client information to ensure "suitability" obligations have been met and appropriate asset allocation is achieved for clients.

Administration: provide an understanding of internal systems and technology, processes and controls and record keeping.

Sales Process: review client communications, including sales skills and marketing. Review disclosure requirements, transaction documentation requirements, compensation policies and approval processes.

Ethics and Standards of Conduct: provide an understanding of acceptable and non-acceptable business practices, review compliance policies, procedures and regulatory requirements, including sales practice procedures required under securities legislation, including National Instrument 81-105.

For salespersons transferring from one Member to another, it will be incumbent upon the receiving Member to ensure that the training program was completed with the prior Member.

Supervision Policy

Rule 1.2.4 requires that all newly registered salespersons be subject to concurrent supervision by the Member for a period of 6 months, commencing on the date of initial registration. Such supervision should include at a minimum:

The first 90-day period:

(a) all new accounts must be pre-approved by the Branch Manager prior to any trade being processed in the account;

(b) all trading activity must be reviewed and signed off by the Branch Manager no later than one business day following the trade date; and

(c) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

The subsequent 90-day period:

(a) all new accounts must be pre-approved by the Branch Manager prior to or shortly after (within 1 business day) any trade being processed in the account;

(b) each month, the Branch Manager must review the greater of:

    (i) 5 of the client files that were handled by the salesperson in the preceding one month, and

    (ii) 10% of such client files,

    provided that if the number of such client files is less than 5, then the Branch Manager must review the actual number of such client files;

(c) on a daily basis, the Branch Manager must review the greater of:

    (i) 5 of the trades conducted by the salesperson, and

    (ii) 10% of such trades,

    provided that if the number of such trades is less than 5, then the Branch Manager must review the actual number of such trades, (high-risk trades, are to be given particular attention); and

(d) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

In reviewing client files, the Branch Manager should ensure that: the proper documentation is contained in the files, including a New Account Application Form; all information is complete, such as the know-your-client information; and look for any unusual information, such as signed blank forms. If the New Account Application Form does not include know-your-client information, this must be documented on a separate form.

All supervisory activities with regard to newly-registered salespersons should be documented and kept on file at the branch location. Refer to the report attached to this ~~Policy~~ Rule which is to be completed by the relevant supervisor at the end of the training and supervision program. Further, any compliance issues that required action on the part of the Branch Manager or other compliance staff must be documented and kept on file.

It is expected that when a salesperson is unsuccessful in meeting a Member's expectations, the supervision and training period will be extended accordingly until such time as the Member is satisfied that the salesperson no longer needs to be subject to internal supervision. Any extensions should be documented accordingly.

CONFIRMATION OF COMPLETION OF NEW REGISTRANT TRAINING AND SUPERVISION PROGRAM

I (*Branch Manager*) hereby certify that I have supervised_____ (*Salesperson's Name*) from the period _____ (*Start Date*) to _____(*End Date*) in accordance with the requirements in ~~MFDA~~ Rule 1.2.4 and the ~~MFDA~~ New Registrant Training and Supervision ~~Policy~~ Rule and confirm that the following information is true and correct to the best of my knowledge:

1. The salesperson designated above has completed the firm's training program within 90 days of being registered with the applicable provincial securities commission.

2. I (or an alternate) have approved all new accounts opened by the above salesperson prior to a first trade in such accounts within his/her first 90 days of registration.

3. I (or an alternate) have reviewed and approved all trading activity by the salesperson within his/her first 90 days of registration.

4. I have reviewed all leveraged trades executed through the above salesperson where leveraging was recommended by the above salesperson prior to completion of the transaction.

5. For each month for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's client files and (ii) 10 percent of the salesperson's client files; or if the number of the salesperson's client files is less than 5, I have reviewed the actual number of such client files.

6. On a daily basis for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's trades and (ii) 10 percent of the salesperson's trades; or if the number of the salesperson's trades is less than 5, I have reviewed the actual number of the salesperson's trades.

7. Any client complaints concerning the above salesperson have been reviewed and discussed with the above salesperson and written documentation has been maintained in the file for any compliance issues that required action.

   IF ITEM 7 IS APPLICABLE, COMPLETE ITEM 8 BY CROSSING OUT THE PARAGRAPH THAT DOES NOT APPLY:

8. (a) As a result of the complaints received, the above salesperson's supervisory period has been extended by months; or

   (b) The complaints were resolved to my satisfaction and it was not necessary to extend the above salesperson's supervisory period.

   Date : _____

Signature of Branch Manager: _____

Name of Branch Manager: _____

Name of Member: _____

10 RULE 200 - MINIMUM STANDARDS FOR ACCOUNT SUPERVISION

Introduction

This ~~Policy~~ Rule establishes minimum industry standards for account supervision. These standards represent the minimum requirements necessary to ensure that a Member has procedures in place to properly supervise account activity. This ~~Policy~~Rule does not:

(a) relieve Members from complying with specific ~~MFDA By-laws and~~ , Rules ~~and Policies~~ and securities legislation applicable to particular trades or accounts; or

(b) preclude Members from establishing a higher standard of supervision, and in certain situations a higher standard may be necessary to ensure proper supervision.

To ensure that a Member has met all applicable standards, Members are required to know and comply with ~~MFDA By-laws~~ , ~~and~~ Rules ~~and Policies~~ as well as applicable securities legislation which may apply in any given circumstance. The following principles have been used to develop these minimum standards:

(a) The term "review" in this ~~Policy~~ Rule has been used to mean a preliminary screening designed to detect items for further investigation or an examination of unusual trading activity or both. It does not mean that every trade must be reviewed. The reviewer must use reasonable judgement in selecting the items for further investigation.

(b) It has been assumed that Members have or will provide the necessary resources and qualified supervisors to meet these standards.

(c) Initial compliance with the know-your-client ("KYC") rule and the requirement to make a suitability determination in respect of investment products are primarily the responsibility of the registered salesperson. The supervisory standards in this ~~Policy~~ Rule relating to KYC and suitability determinations are intended to provide supervisors with a checklist against which to monitor the handling of these responsibilities by the registered salesperson.

Members that seek to adopt policies and procedures relating to branch and head office supervision or the allocation of supervisory activities that differ from those contained in this ~~Policy~~ Rule must demonstrate that all of the principles and objectives of the minimum standards set out in this ~~Policy~~ Rule have been properly satisfied. Further, any such alternative policies and procedures must adequately address the risk management issues of the Member and must be pre-approved by ~~MFDA staff~~ staff of the Corporation before implementation.

Supervisory staff has a duty to ensure compliance with Member policies and procedures and ~~MFDA~~ regulatory requirements, which includes the general duty to effectively supervise and to ensure that appropriate action is taken when a concern is identified. Such

action would depend on the circumstances of each case and may include following up with the registered salesperson and/or the client. Supervisory staff must also maintain records of the issues identified, action taken and resolution achieved.

I. ESTABLISHING AND MAINTAINING PROCEDURES

Effective self-regulation begins with the Member establishing and maintaining a supervisory environment which both fosters the business objectives of the Member and maintains the self-regulatory process. To that end a Member must establish and maintain procedures which are supervised by qualified individuals. A major aspect of self-regulation is the ongoing education of staff in all areas of sales compliance.

Establishing Procedures

1. Members must appoint designated individuals who have the necessary knowledge of industry regulations and Member policies to properly perform the duties.

2. Written policies must be established to document supervision requirements.

3. Written instructions must be supplied to all supervisors and alternates to advise them on what is expected of them.

4. All policies established or amended should have senior management approval.

Maintaining Procedures

1. Evidence of supervisory reviews must be maintained. Evidence of the review, such as inquiries made, replies received, date of completion etc. must be maintained for seven years and on-site for one year.

2. An on-going review of sales compliance procedures and practices must be undertaken both at head office and at branch offices.

Delegation of Procedures

1. Tasks and procedures may be delegated to a knowledgeable and qualified individual but not responsibility.

2. The Member must advise supervisors of those specific functions which cannot be delegated, such as approval of new accounts.

3. The supervisor delegating the task must ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.

4. Those who are delegated tasks must have the qualifications and required proficiency to perform the tasks and should be advised in writing of their duties. The general expectation is that tasks be delegated only to individuals with the same proficiency as the delegating supervisor. In certain limited circumstances, it may

be acceptable to delegate specialized tasks to an individual that has not satisfied the proficiency requirements provided that the individual has equivalent training, education or experience related to the function being performed. The Member must consider the responsibilities and functions to be performed in relation to the delegated tasks and make a determination as to appropriate equivalent qualifications and proficiency. The Member must be able to demonstrate to ~~MFDA staff~~ staff of the Corporation that the equivalency standard has been met. Tasks related to trade supervision can only be delegated to individuals that possess the proficiency of a branch manager or compliance officer.

Education

1. The Member's current policies and procedures manual must be made available to all sales and supervisory staff.

2. Introductory training and continuing education should be provided for all registered salespersons. For training and enhanced supervisory requirements for newly registered salespersons, please refer to the ~~MFDA Policy~~Rule 100 entitled "New Registrant Training and Supervision ~~Policy~~Rule."

3. Relevant information contained in compliance-related ~~MFDA~~ Member Regulation Notices and Bulletins and compliance-related notices from other applicable regulatory bodies must be communicated to registered salespersons and employees. Procedures relating to the method and timing of distribution of compliance-related information must be clearly detailed in the Member's written procedures. Members should ensure that they maintain evidence of compliance with such procedures.

II. OPENING NEW ACCOUNTS

To comply with the KYC and suitability determination requirements set out in ~~MFDA~~ Rule 2.2, each Member must establish procedures to maintain accurate and complete information on each client. The first step towards compliance with this rule is completing proper documentation when opening new accounts. Accurate completion of the documentation when opening a new account allows both the registered salesperson and the supervisory staff to conduct the necessary reviews to ensure that recommendations made for any account are suitable for the client and put the client's interests first. Maintaining accurate and current documentation will allow the registered salesperson and the supervisory staff to ensure that requirements under Rule 2.2 are met.

Documentation of Client Account Information

The information set out under paragraphs 3 and 4, below, represents a list of minimum requirements. The Member may require clients to provide any additional information that it considers relevant in order to comply with Rule 2.2.1.

1. A New Account Application Form ("NAAF") must be completed for each new account.

2. A complete set of documentation relating to each client's account must be maintained by the Member. Registered salespersons must have access to information and documentation relating to the client's account as required to service the account. In the case of a Level 1 Introducing Dealer and corresponding Carrying Dealer, both Members must maintain a copy of each client's NAAF.

3. For each account of a client that is a natural person, the Member must obtain, at a minimum, the following information:

   (a) name;

   (b) type of account;

   (c) residential address and contact information;

   (d) date of birth;

   (e) employment information;

   (f) number of dependants;

   (g) other persons with trading authorization on the account;

   (h) other persons with a financial interest in the account;

   (i) investment knowledge;

   (j) risk profile;

   (k) investment needs and objectives;

   (l) investment time horizon;

   (m) financial circumstances, including income and net worth;

   (n) for non-registered leveraged accounts, details of the net worth calculation, specifying liquid assets plus any other additional assets less total liabilities;

   (o) information required by other laws and regulations applicable to the Member's business as amended from time to time including information required for relevant tax reporting; information required for compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* and any authorization necessary to provide information to the ~~MFDA~~ Corporation under applicable privacy legislation.

   In the case of accounts jointly owned by two or more persons, information required under paragraph 3, subsections (a), (c), (d), (e), (f), and (i) must be collected with respect to each owner. Income and net worth may be collected for each owner or on a combined basis as long as it is clear which method has been used.

4. For each account of a client that is a corporation, trust or other type of legal entity, the Member must obtain information sufficient to allow for the operation of the account and sufficient to determine the essential facts relative to the client, which would include, at a minimum, the following information:

   (a) legal name;

   (b) head office address and contact information;

   (c) type of legal entity (i.e. corporation, trust, etc.);

   (d) form and details regarding the organization of the legal entity (i.e. articles of incorporation, trust deed, or other constating documents);

   (e) nature of business;

   (f) persons authorized to provide instructions on the account and details of any restrictions on their authority;

   (g) investment knowledge of the persons to provide instructions on the account;

   (h) risk profile;

   (i) investment needs and objectives;

   (j) investment time horizon;

   (k) financial circumstances, including income and net worth;

   (l) information required by other laws and regulations applicable to the Member's business as amended from time to time including information required for relevant tax reporting; information required for compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* and any authorization necessary to provide information to the ~~MFDA~~ Corporation under applicable privacy legislation.

5. For supervisory purposes, the following account types must be readily identifiable: registered accounts; leveraged accounts; and accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client.

6. If the NAAF does not include KYC information, this must be documented on a separate KYC form(s). Such form(s) must be signed by the client and dated. A copy of the completed NAAF and KYC form, if separate from the NAAF, must be provided to the client.

7. The Member must have internal controls and policies and procedures in place with respect to the entry of KYC information on their back office systems. Such controls should provide an effective means to detect and prevent inconsistencies between the KYC information used for account supervision with that provided by the client.

8. Except as noted in the following paragraph, NAAFs must be prepared and completed for all new clients prior to the opening of new client accounts. The new account or KYC information must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the initial transaction date. Records of all such approvals must be maintained in accordance with Rule 5.

9. Notwithstanding the preceding paragraph, NAAFs for clients of a registered salesperson transferring to the Member must be prepared and completed within a reasonable time (but in any event no later than the time of the first trade). The new accounts or KYC information for clients of the transferring salesperson must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the date that the NAAF is completed. Records of all such approvals must be maintained in accordance with Rule 5.

10. In the event that a NAAF is not completed prior to or within a reasonable time after opening an account, as required by this ~~Policy~~Rule, the Member must have policies and procedures to restrict transactions on such accounts to liquidating trades until a fully completed NAAF is received.

Changes to KYC Information

1. The registered salesperson or Member must update the KYC information whenever they become aware of a material change in client information as defined in Rule 2.2.4(a), and must review KYC information with the client at a frequency of no less than once every 36 months.

2. On account opening, the Member should advise the client to promptly notify the Member of any material changes in the client information, as defined in Rule 2.2.4(a), previously provided to the Member and provide examples of the types of information that should be regularly updated.

3. In accordance with Rule 2.2.4(e), Members must also, on an annual basis, request in writing that clients notify them if there has been any material change in client information, as defined in Rule 2.2.4(a), previously provided, or if the client's circumstances have materially changed.

4. Access to amend KYC information must be controlled and instructions to make any such amendments must be properly documented.

5. A client signature, which may include an electronic signature, or other internal controls sufficient to authenticate the client’s identity and verify the client’s

authorization must be used to evidence any change in client name, client address or client banking information.

6. Material changes to client information, as defined in Rule 2.2.4(a), may be evidenced by a client signature, which may include an electronic signature or, alternatively, such changes may be evidenced by maintaining notes in the client file detailing the client's instructions to change the information and verified by providing written confirmation to the client with details of the instructions and providing an opportunity for the client to make corrections to any changes that have been made.

7. All material changes in client information, as defined in Rule 2.2.4(a), must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the date on which notice of the change in information is received from the client. When approving material changes, branch managers should be reviewing the previous KYC information to assess whether the change appears reasonable. Branch managers should be aware of situations where material changes may have been made to justify trades or leveraging that would not be suitable, or put the client's interests first, as required under Rule 2.2.6(1) (hereafter referred to as "unsuitable"). For example, branch managers should investigate further material changes that accompany trades in higher risk investment products or leveraging or changes made within a short period of time (for example 6 months). Records of all such approvals must be maintained in accordance with Rule 5.

8. Where any material changes have been made to the information contained in the NAAF or KYC form(s), the client must promptly be provided with a document or documents specifying the current risk profile, investment needs and objectives, investment time horizon, income and net worth that applies to the client's account.

9. The last date upon which the KYC information has been updated or confirmed by the client must be indicated in the client's file and on the Member's back office system.

Pending/Supporting Documents

1. Members must have procedures in place to ensure supporting documents are received within a reasonable period of time of opening the account.

2. Supporting documentation that is not received or is incomplete must be noted, filed in a pending documentation file and reviewed on a periodic basis.

3. Failure to obtain required documentation within 25 days of the opening of the account must result in positive actions being taken.

Client Communications

1. All hold mail must be authorized by the client in writing and be controlled, reviewed on a regular basis and maintained by the responsible supervisor. Hold mail should never be permitted to occur over a prolonged period of time (i.e. in excess of 6 months).

2. Returned mail is to be promptly investigated and controlled.

III. ASSESSING SUITABILITY OF INVESTMENTS AND BORROWING TO INVEST ("LEVERAGING") STRATEGIES

General

1. Members must establish and maintain policies and procedures with respect to their obligation to make a suitability determination which satisfies the criteria set out under Rule 2.2.6(1)(a), and, in accordance with requirements under Rule 2.2.6(1)(b), puts the client's interest first. The policies and procedures must include guidance and criteria for registered salespersons to ensure that recommendations made and orders accepted (with the exception of unsolicited orders accepted pursuant to Rule 2.2.6(2.1)) are suitable for the client and put the client's interest first. The policies and procedures must also include criteria for supervisory staff at the branch and head office to review a suitability determination considering all investment products in each client's account and the client's use of borrowing to invest ("leverage").

2. The criteria for selecting trades and leverage strategies for review, the inquiry and resolution process, supervisory documentation requirements and the escalation and disciplinary process must be documented and clearly communicated to all registered salespersons and all relevant employees. Registered salespersons must be advised of the criteria used in assessing a suitability determination, actions the Member will take when a trade or leverage strategy has been flagged for review and appropriate options for resolution.

Leverage Suitability

1. The minimum criteria listed below are intended to prompt a supervisory review and investigation by the Member of a leverage strategy. While Members must consider all the criteria noted below, the triggering of one or more of the criteria may not necessarily mean that the leverage strategy is unsuitable. The Member's supervisory review and investigation must be able to demonstrate that use of the leverage strategy was suitable for the client, and put the client's interests first.

   Where the leverage strategy is approved, the analysis and rationale must be documented.

   Minimum criteria that require supervisory review and investigation include the following:

(a) investment knowledge of low or poor (or similar categories);

(b) risk profile of less than medium (or similar categories);

(c) age of 60 and above;

(d) investment time horizon of less than 5 years;

(e) total leverage amount that exceeds 30% of the client's total net worth; and

(f) total debt and lease payments that exceed 35% of the client's gross income, not including income generated from leveraged investments. Total debt payments would include all loans of any kind whether or not obtained for purpose of investment. Total lease payments would include all significant ongoing lease and rental payments such as automobile leases and rental payments on residential property.

2. With respect to a recommendation for a client to use a leveraging strategy, Members and registered salespersons may not obtain a waiver from the client to exempt the Member and the registered salesperson from their obligations to ensure that such a recommendation is suitable for the client, and puts the client's interest first.

3. The Member must review and maintain documents to facilitate proper supervision. This would include:

(a) Lending documents and details of lending arrangements – The Member or registered salesperson must either maintain copies of the lending documents or make sufficient inquiries to obtain details of the loan, including interest rate, terms for repayment, and the outstanding loan value. Where the Member or registered salesperson assists the client in completing the loan application, the Member must maintain copies of lending documents in the file, including copies of the loan application.

Where the client arranges their own financing, it may be difficult in some cases for the Member or registered salesperson to obtain details of the lending arrangement from the client. Where a client is unwilling to provide details of the lending arrangement, the Member and registered salesperson must advise the client that they cannot make a suitability determination without additional information and maintain evidence of such advice.

(b) NAAF and updates to KYC information – Supervisory staff must compare the client's KYC information with all other information received in respect of the loan and follow up on any material inconsistencies, which may require obtaining additional supporting documentation from the client.

(c) Numerical details in support of income and net worth calculations required by sections 1(e) and 1(f).

(d) Trade documents, notes supporting client instructions or authorizations and notes supporting the rationale for recommending a leverage strategy to the client.

Registered Salespersons

1. All recommendations made and orders accepted by registered salespersons (with the exception of unsolicited orders accepted pursuant to Rule 2.2.6(2.1)) must be suitable and put the client's interest first in accordance with Rule 2.2.6(1). Where the registered salesperson recommends a leverage strategy to a client or where the registered salesperson is aware that a transaction involves the use of borrowed funds, the registered salesperson must ensure that the client's account is identified as "leveraged" on the Member's system in accordance with the Member's policies and procedures.

2. Registered salespersons must make a suitability determination considering all investment products in a client account whenever:

   – the Member or registered salesperson becomes aware of a change in an investment product in the client's account that may result in the investment product or account not being suitable or putting the client's interest first;

   – the client transfers to the Member or transfers assets into an account at the Member;

   – the Member or registered salesperson becomes aware of a material change in the client's KYC information;

   – the Member or registered salesperson has reviewed the client's KYC information in accordance with the review requirements set out under Part II (Opening New Accounts), Changes to KYC Information, paragraph 1; or

   – the client account has been re-assigned to the registered salesperson from another registrant at the Member.

Where there is a transfer of assets into an account at the Member or where the client account is re-assigned to the registered salesperson from another registrant at the Member, the suitability determination must be performed within a reasonable time, but in any event no later than the time of the next trade. "Reasonable time" in a particular instance will depend on the circumstances surrounding the event that gives rise to the requirement to perform the suitability determination. For example, with respect to client transfers, the volume of accounts to be reviewed may be a relevant factor in determining reasonable time.

Where the Member or registered salesperson becomes aware of a material change in the client's KYC information, the suitability determination must be performed no later than one business day after the date on which the notice of change in information is received from the client.

3. Registered salespersons must also make a suitability determination with respect to a leverage strategy having regard to the client's investment knowledge, risk profile, age, investment time horizon, income, net worth and investment needs and objectives whenever:

   – the Member or registered salesperson becomes aware of a change in an investment product in the client's account, which was purchased using borrowed funds, that may result in the investment product or account not being suitable or putting the client's interest first;

   – the client transfers assets purchased using borrowed funds into an account at the Member;

   – the Member or registered salesperson becomes aware of a material change in the client's KYC information;

   – the Member or registered salesperson has reviewed the client's KYC information in accordance with the review requirements set out under Part II (Opening New Accounts), Changes to KYC Information, paragraph 1; or

   – the client account has been re-assigned to the registered salesperson from another registrant at the Member.

   Where there is a transfer of assets purchased using borrowed funds into an account at the Member or where the client account is re-assigned to the registered salesperson from another registrant at the Member, the suitability determination must be performed in a timely manner as soon as possible after the transfer in accordance with the circumstances, but in any event no later than the time of the next trade.

   Where the Member or registered salesperson becomes aware of a material change in the client's KYC information, the suitability determination must be performed no later than one business day after the date on which the notice of change in information is received from the client.

4. Should a registered salesperson identify unsuitable investment products in a client's account or an unsuitable leverage strategy, the registered salesperson must advise the client and take appropriate steps to determine if there has been any change to client circumstances that would warrant altering the KYC information. Where there has not been a change in client circumstances, it is inappropriate to alter the KYC information in order to match the investment products in the client's account or the leverage strategy. If there is no change to the KYC information, or if investment products in the account or the leverage strategy continue to be unsuitable after the KYC information has been amended, the registered salesperson should discuss any inconsistencies with the client and provide recommendations that would satisfy requirements under Rule 2.2.6(1)(a) and (b). Transactions in the

account must only be made in accordance with client instructions and any recommendations made must be properly recorded.

5. Registered salespersons must maintain evidence of completion of all suitability determinations performed and any follow up action taken.

IV. BRANCH OFFICE SUPERVISION

1. An on-site branch manager is in the best position to know the registered salespersons in the office, know or meet many of the clients, understand local conditions and needs, facilitate business through the timely approval of new accounts and respond immediately to questions or problems. In accordance with Rule 2.5.5(c), a Member may designate a branch manager for a branch office who is not normally on-site. In determining whether an on-site branch manager is necessary at a branch, a number of factors, including the following, should be considered:

   – the specific activities at the branch;

   – complaint history;

   – number of Approved Persons at the branch;

   – experience of Approved Persons at the branch;

   – trade volume/commissions earned;

   – results of previous ~~Policy No. 5~~Rule 500 branch reviews;

   – ~~MFDA~~ compliance examination findings;

   – daily trade supervision issues;

   – supervisory tools used at the branch (manual or automated);

   – the nature of outside activities carried on at the branch; and

   – the availability of a branch manager or branch managers in nearby locations.

2. Where a branch or sub-branch does not have an on-site branch manager, the Member must assign an off-site branch manager to the location. The Member's policies and procedures must include provision for periodic visits to the branch and sub-branch by the branch manager, or other Approved Persons at the Member who are delegated supervisory responsibility, as necessary to ensure that business is being conducted properly at the location. Members must maintain records of the visits as well as issues identified and follow-up action taken.

3. Members must maintain an internal record of branch managers and the branches and sub-branches they are responsible for supervising.

Daily Reviews

1. All new account applications and updates to client information must be reviewed and approved in accordance with this ~~Policy~~Rule.

2. The branch manager (or alternate) must review the previous day's trading for unsuitable trades, leveraging and any other unusual trading activity using any convenient means. This review must include, at a minimum, all:

   – initial trades;

   – trades in exempt securities (excluding guaranteed investment certificates);

   – leveraging for accounts other than registered retirement savings plans or registered education savings plans;

   – trades in accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client;

   – redemptions over $10,000;

   – trades over $2,500 in moderate-high or high risk investment products;

   – trades over $5,000 in moderate or medium risk investment products; and

   – trades over $10,000 in all other investment products.

   For the purposes of this section, “trades” does not include redemptions except where specifically referenced.

3. When reviewing redemptions, branch managers should:

   – Review the suitability determination in respect of the redemption, having regard to the composition of the remaining portfolio;

   – assess the impact and appropriateness of any redemption charges;

   – consider possible outside activity where money may be leaving the Member for reinvestment into other potentially inappropriate or unauthorized investments; and

   – consider potential churning, including situations where redemption proceeds are being held on a temporary basis pending reinvestment.

4. The branch manager (or alternate) is responsible for following up on unusual trades identified by head office.

Other Reviews

1. The branch manager must review a suitability determination considering investment products in each client account and the client's use of leverage, if any, where the Member becomes aware of a material change in the client's KYC information that results in a significant decrease in the client's risk profile, investment time horizon, income or net worth or more conservative investment needs and objectives. The review of a suitability determination must be performed no later than one business day after the date on which notice of the change in information is received from the client.

2. In addition to transactional activity, branch managers must also keep themselves informed as to other client-related compliance matters such as complaints.

V. HEAD OFFICE SUPERVISION

A two-tier structure is required to adequately supervise client account activity. While the head office or regional area level of supervision by its nature cannot be in the same depth as branch level supervision, it should cover the same elements. Head office review should be focused on unusual activity or reviews that cannot be carried out at the branch level. Head office reviews must include procedures to effectively detect unsuitable investments and excessive trading in client accounts.

Daily Reviews

1. In addition to the trading review criteria for branch managers, head office must conduct daily reviews of account activity which must include, at a minimum, all:

   – redemptions over $50,000;

   – trades over $5,000 in exempt securities (excluding guaranteed investment certificates), moderate-high or high risk investment products, or leveraging for accounts other than registered retirement savings plans or registered education savings plans;

   – trades over $10,000 in moderate or medium risk investment products; and

   – trades over $50,000 in all other investment products (excluding money market funds).

   For the purposes of this section, "trades" does not include redemptions except where specifically referenced.

2. There must be closer supervision of trading by registered salespersons who have had a history of questionable conduct. Questionable conduct may include trading

activity that frequently raises questions in account reviews, frequent or serious complaints, regulatory investigations or failure to take remedial action on account problems identified.

3. Daily reviews should be completed within one business day unless precluded by unusual circumstances.

4. Daily reviews should be conducted of client accounts of producing branch managers.

Other Reviews

1. The Member must, on a sample basis, review a suitability determination, where clients have transferred assets into an account. The Member must have policies and procedures regarding sample size and selection, which should be based on the risk level associated with the account, focusing on accounts that hold higher risk investment products, exempt securities or investment products not sold by the Member, accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client and accounts employing a leverage strategy other than registered retirement savings plans and registered education savings plans. The Member's reviews must be completed within a reasonable time, but in any event no later than the time of the next trade.

2. Members must also review a suitability determination in all cases where the client transfers assets purchased using borrowed funds into an account at the Member. Given the high risk nature of leveraging strategies, the Member's reviews must be completed in a timely manner as soon as possible after the transfer in accordance with the circumstances, but in any event no later than the time of the next trade.

VI. IDENTIFICATION OF TRENDS IN TRADING ACTIVITY

1. Members must establish policies and procedures to identify trends or patterns that may be of concern including:

   – excessive trading or switching between funds indicating possible unauthorized trading, unsuitable trades, or possible issues of churning (for example, redemptions made within 3 months of a purchase, DSC purchases made within 3 months of a DSC redemption or accounts where there are more than 5 trades per month);

   – excessive switches between no load funds and deferred sales charge or front load funds;

   – excessive switches between deferred sales charge funds and front load funds; and

   – excessive switches where a switch fee is charged.

2. Head office supervisory review procedures must include, at a minimum, the following criteria:

   – a review of all accounts generating commissions greater than $1,500 within the month;

   – a quarterly review of reports on assets under administration ("AUA") comparing current AUA to AUA at the same time the prior year;

   – a quarterly review of commission reports for the previous 12 month period comparing commissions received in the current year to commissions received for the same period in the prior year.

   Significant increases in commissions or AUA beyond those caused by market fluctuations may indicate issues with churning or leveraging strategies. Significant decreases may indicate potential inappropriate outside activity.

3. Reviews should be completed within 30 days of the last day of the period being reviewed unless precluded by unusual circumstances.

11 RULE 300 - COMPLAINT HANDLING, SUPERVISORY INVESTIGATIONS AND INTERNAL DISCIPLINE

I. Complaints

1. Introduction

~~MFDA~~ Rule 2.11 requires Members to establish and implement written policies and procedures for dealing with client complaints that ensure that such complaints are dealt with promptly and fairly. This ~~Policy~~ Rule establishes minimum standards for the development and implementation of those procedures.

Compliance with the requirements of ~~MFDA~~ Rule 2.11 and this ~~Policy~~ Rule must be supervised and monitored by the Member and its personnel in accordance with ~~MFDA~~ Rule 2.5.

2. Definition

A "complaint" shall be deemed to include any written or verbal statement of grievance, including electronic communications from a client, former client, or any person who is acting on behalf of a client and has written authorization to so act, or of a prospective client who has dealt with a Member or Approved Person, alleging a grievance involving the Member, Approved Person of the Member or former Approved Person of the Member, if the grievance involves matters that occurred while the Approved Person was an Approved Person of the Member.

3. Duty to Assess All Complaints

Members have a duty to engage in an adequate and reasonable assessment of all complaints.

All complaints are subject to the complaint handling requirements set out in Part I of this ~~Policy~~Rule. Certain complaints are subject to additional complaint handling requirements as set out in Part II of this ~~Policy~~Rule. Complaints must be assessed to determine whether, in the reasonable professional judgment of the Member's supervisory staff handling the complaint, they should be treated in accordance with the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~Rule.

All complaints, including complaints from non-clients in respect of their own affairs, in any way relating to the following must be dealt with in accordance with the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~Rule:

- a breach of client confidentiality;
- unsuitable investments or leveraging (except for non-clients);
- theft, fraud, misappropriation, forgery, misrepresentation, unauthorized trading;

- engaging in securities related business outside of the Member;
- engaging in an undeclared occupation outside the Member;
- personal financial dealings with a client, money laundering, market manipulation or insider trading.

In determining whether any other complaints not relating to the matters set out above should be subject to the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~ Rule supervisory staff should consider whether the complaint alleges a matter similar in nature or seriousness to those set out above, the complainant's expectation as to how the complaint should be handled and whether the complainant is alleging any financial harm. Where supervisory staff determines that a complaint does not meet any of these criteria the complaint must be handled fairly and promptly but can be concluded through an informal resolution.

4. **Minimum Requirements for Complaints Subject to Informal Resolution**

Any complaints that are subject to informal resolution must be handled fairly and responded to promptly (i.e. generally in less time than it would take for complaints subject to the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy)~~Rule). Such complaints must also be resolved in accordance with internal Member complaint handling policies and procedures that clearly describe the process to be followed in the assessment and resolution of such matters. Certain complaints subject to informal resolution must also be reported under ~~Policy~~ Rule 600.

Where a complaint subject to informal resolution is received in writing the Member must provide its substantive response in writing.

5. Member Assistance in Documenting Verbal Complaints

Members should be prepared to assist clients in documenting verbal complaints where it is apparent that such assistance is required.

6. Client Access

At the time of account opening, Members must provide to new clients a written summary of the Member's complaint handling procedures, which is clear and can easily be understood by clients. On account opening, the Member must also provide a Client Complaint Information Form ("CCIF"), as approved by ~~MFDA~~ staff, describing complaint escalation options, including complaining to the Ombudsman for Banking Services and Investments and complaining to the ~~MFDA~~ Corporation.

Members must ensure that information about their complaint handling process is made generally available to clients so that clients are informed as to how to file a complaint and to whom they should address a complaint. For example, Members who maintain a website must post their complaint handling procedures on their website.

Member procedures must provide a specific point of initial contact at head office for complaints or information about the Member's complaint handling process. This contact may be a designated person or may be a general inbox or telephone number that is continuously monitored. Members may also advise clients to address their complaints to the Approved Person servicing their account and to the Branch Manager supervising the Approved Person.

7. Fair Handling of Client Complaints

To achieve the objective of handling complaints fairly, Members' complaint handling procedures must include standards that allow for a factual investigation and an analysis of the matters specific to the complaint. Members must not have policies that allow for complaints to be dismissed without due consideration of the facts of each case. There must be a balanced approach to the gathering of facts that objectively considers the interests of the complainant, the Approved Person and the Member.

The basis of the Member's analysis must be reasonable. For example, a suitability complaint must be considered in light of the same principles that would be applied by a reasonable Member in conducting a suitability review, which would include an acknowledgement of the complainant's stated risk tolerance. It would not be reasonable for a Member to assess suitability based on a risk level presumed by the Member that is higher than that indicated by the complainant. A further example of an unreasonable analysis is where a Member dismisses a complaint due to a simple uncorroborated denial by the Approved Person notwithstanding evidence in support of the complainant.

A Member's obligation to handle complaints in accordance with this ~~Policy~~ Rule is not altered when a complainant engages legal counsel in the complaint process and where no litigation has commenced. Where litigation has been initiated by the complainant, the Member is expected to participate in the litigation process in a timely manner in accordance with the rules of procedure of the applicable jurisdiction and to refrain from acting in a way that is clearly unfair.

The Member's review of the complaint must result in the Member's substantive response to the complainant. Examples of an appropriate substantive response include a fair offer to resolve the complaint or a denial of the complaint with reasons. ~~MFDA~~ Corporation staff does not require that the complainant accept the Member's offer in order for the offer to be considered fair.

8. Prompt Handling of Client Complaints

The Member must handle the complaint and provide its substantive response within the time-period expected of a Member acting diligently in the circumstances. The time-period may vary depending on the complexity of the matter. The Member should determine its substantive response and notify the complainant in writing in most cases within three months of receipt of the complaint.

Further, staff recognizes that, if the complainant fails to co-operate during the complaint resolution process, or if the matter requires an extensive amount of fact-finding or complex

legal analysis, time-frames for the substantive response may need to be extended. In cases where a substantive response will not be provided within three months, the Member must advise the complainant as such, provide an explanation for the delay and also provide the Member's best estimate of the time required for the completion of the substantive response.

It is not required that the complainant accept the Member's substantive response. Where the Member has communicated its substantive response, the Member must continue to proactively address further communications from the complainant in a timely manner until no further action on the part of the Member is required.

9. General Complaint Handling Requirements

1. All client complaints and supervisory obligations must be handled by qualified sales supervisors/compliance staff. An individual who is the subject of a complaint must not handle the complaint unless the Member has no other supervisory staff who are qualified to handle such complaints.

2. Each Approved Person must report certain complaints and other information relevant to this ~~Policy~~ Rule to the Member as required under ~~MFDA Policy~~ Rule 600.

3. Each Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.

4. Members may use the electronic reporting system designated under ~~MFDA Policy~~ Rule 600 (the "Member Event Tracking System" or "METS") as their complaint log for those complaints reported on METS. For complaints that are not required to be reported through METS Members must have policies and procedures for the detection of frequent and repetitive complaints made with respect to the same matter which may, on a cumulative basis, indicate a serious problem.

5. Follow-up documentation for all complaints must be kept in a central location along with the consolidated log of complaints. Alternatively, where a Member has various regional head offices or branches, the Member may keep follow-up documentation at any one regional head office or branch, so long as information about the handling of the complaint is in the Member head office log and the follow-up documentation can be produced in a timely manner.

6. Where the events relating to a complaint took place in part at another Member or a member of another SRO, Members and Approved Persons must cooperate with other Members or SRO members in the sharing of information necessary to address the complaint.

10. Settlement Agreements

No Approved Person shall, without the prior written consent of the Member, enter into any settlement agreement with, pay any compensation to or make any restitution to a client.

No Member or Approved Person of such Member may impose confidentiality restrictions on clients or a requirement to withdraw a complaint with respect to the ~~MFDA~~ Corporation or a securities commission, regulatory authority, law enforcement agency, SRO, stock exchange or other trading market as part of a resolution of a dispute or otherwise.

11. Additional Complaint Handling Requirements

Each Member's procedures for handling complaints that are subject to the requirements of this section must include the following:

1. **Initial Response** – An initial response letter must be sent to the complainant within a reasonable time, and generally within 5 business days of receipt of the complaint. If a complaint can be concluded in less than 5 business days then an initial response letter is not necessary. The initial response letter must include the following information:

    - A written acknowledgment of the complaint;
    - A request to the complainant for any additional reasonable information required to resolve the complaint;
    - The name, job title and full contact information of the individual at the Member handling the complaint;
    - A statement indicating that the complainant should contact the individual at the Member handling the complaint if he/she would like to inquire about the status of the complaint;
    - A summary of the Member's internal complaint handling process, including general timelines for providing the Member's response to complaints and a statement advising clients that each province and territory has a time limit for taking legal action; and
    - A reference to an attached copy of the CCIF, and a reference to the fact that the CCIF contains information about applicable limitation periods.

2. **Substantive Response** – The substantive response letter, which Members must provide to the complainant, may be accompanied by a summary of the Member's complaint handling procedures and must include a copy of the CCIF. The substantive response letter to complainants must also include the following information:

    - An outline of the complaint;
    - The Member's substantive decision on the complaint, including reasons for the decision; and

- A reminder to the complainant that he/she has the right to consider: (i) presenting the complaint to the Ombudsman for Banking Services and Investments which will consider complaints brought to it within six months of the substantive response letter; (ii) making a complaint to the ~~MFDA~~ Corporation; (iii) litigation/civil action; or (iv) any other applicable options, such as an internal ombudservice provided by an affiliate of the Member.

III. Supervisory Investigations

A Member must monitor, through its supervisory personnel, all information that it receives regarding potential breaches of applicable requirements on the part of the Member and its current and former Approved Persons that raise the possibility of risk to the Member's clients or other investors. Applicable requirements include ~~MFDA~~ ~~By-laws,~~ Rules ~~and Policies~~, other applicable legal and regulatory requirements and the Member's related internal policies and procedures. This applies to information received from both internal and external sources. For example, such information may come from client complaints, be identified during the Member's routine supervisory activity, or come from other Approved Persons of the Member or individuals outside the Member who are not clients.

For purposes of clarity, where the information is received by way of a client complaint, the supervisory duty goes beyond addressing the relief requested by the complainant and extends to a consideration of general risk at the Member. The duty to deal with the supervisory aspects of the matter continues when a complainant purports to withdraw the complaint or indicates satisfaction with the result of the Member's complaint handling.

Members must take reasonable supervisory action in relation to such information, the extent of which will in part depend on the severity of the allegation and the complexity of the issues. In all cases, the Member must track such information and note trends in risk, including those related to specific Approved Persons or branches, subject matter, product types, procedures and cases, and take necessary action in response to those trends as appropriate. In some cases, it will be necessary to conduct an active supervisory investigation in relation to the information received in specific situations and the level of the investigation must be reasonable in the circumstances.

For example, where the Member identifies unsuitable investment or leveraging recommendations by one if its Approved Persons, the investigation may extend to include determining relevant matters such as the understanding of the Approved Person and applicable supervisory personnel of the Member's policies and procedures and the possibility that such conduct occurred in relation to other clients.

With regard to the type of conduct outlined in Part I, Section 3 of this ~~Policy~~Rule, other than suitability, the Member has a duty to conduct a detailed investigation in all situations where there is information from any source, written or verbal, whether from an identified source or anonymous, to raise the possibility that such conduct occurred. This duty applies to all conduct by the current or former Approved Person, whether it occurred inside or outside the Member.

The investigation must be sufficiently detailed and must include all reasonable steps to determine whether the potential activity occurred. Examples of the activities that the Member may need to take include:

(a) interviewing or otherwise communicating with individuals such as:

- the individuals of concern;
- related supervisory personnel;
- other branch staff;
- head office personnel;
- the client or other external individuals who brought the information to the Member's attention; or
- other clients who may have been affected by the activity.

(b) conducting a review at the branch or sub-branch.

(c) reviewing documentation such as:

- files of the Approved Person relating to Member business; or
- files and other documents in the Approved Person's custody or control that relate to outside business, where there is a reasonable possibility that such information is relevant to the investigation. Members have the right to require such information to meet their supervisory responsibilities and Approved Persons have an obligation to cooperate with such requests.

IV. Internal Discipline

Each Member must establish procedures to ensure that breaches of the MFDA By-laws, and Rules and Policies are subjected to appropriate internal disciplinary measures.

V. Record Retention

Documentation associated with a Member's activity under this Policy Rule shall be maintained for a minimum of 7 years from the creation of the record and made available to the MFDA Corporation upon request.

12 RULE 400 - INTERNAL CONTROL ~~POLICY~~ RULE STATEMENTS

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 1 - GENERAL MATTERS

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time."

"Internal control" is defined as follows:

> ***"Internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. The responsibility for ensuring adequate internal control is part of management's overall responsibility for the ongoing activities of the entity." (CICA Handbook, 5200.03)***

The effectiveness of specific policies and procedures is affected by many factors, such as management philosophy and operating style, the function of the board of directors (or equivalent) and its committees, organizational structure, methods of assigning authority and responsibility, management control methods, system development methodology, personnel policies and practices, management reaction to external influences, and internal audit. These and other aspects of internal control affect all parts of the Member firm.

In addition to compliance with required policies and procedures set out in these ~~Policy~~ Rule Statements, a Member must consider the following, to the extent that they suggest a higher standard than would otherwise be required:

(i) Recommended provisions set out in these ~~Policy~~ Rule Statements;

(ii) ~~Authoritative literature such as publications of the Mutual Fund Dealers Association of Canada, the MFDA Investor Protection Corporation, the Internal Control Guidelines published by the Investment Dealers Association of Canada and p~~Publications of the Chartered Professional ~~anadian Institute of Chartered~~ Accountants Canada;

(iii) Comments on internal control that may have been made by internal and external auditors and by industry regulators, and actions that the Member has taken as a result;

(iv) Industry practice; and

(v) The balance struck between preventive and detective controls. Preventive controls are those which prevent, or minimize the chance of occurrence of, fraud or error. Detective controls do not prevent fraud and error but rather detect them, or maximize the chance of their detection, so that corrective

action may be promptly taken. The known existence of detective controls may have a deterrent effect and be preventive in that sense.

The extent of preventive controls implemented by a Member will depend on management's view of the risk of loss and the cost-benefit relationship of controlling such risk. Where the inherent risk is high (e.g. cash) the cost of effective preventive controls will usually be warranted and expected by industry regulators. On the other hand, where the inherent risk is very low (e.g. prepaid expenses), the cost of preventive controls would usually not be warranted nor expected by industry regulators. Further, in a circumstance where a preventive control is warranted, a detective control should not be considered to be a suitable alternative unless it will result in prompt detection of fraud and error and provide near certainty of recovery of the property that is the subject of the fraud or error.

For example, the safeguarding of clients' cash warrants the implementation of highly effective preventive controls. Accordingly, Members safeguard clients' cash by placing it in a trust account and performing monthly reconciliations.

Determining whether internal control is adequate is a matter of judgement. However, internal control is not adequate if it does not reduce to a relatively low level the risk of failing to meet control objectives stated in this series of ~~Policy~~ Rule Statements and, as a consequence, one or more of the following conditions has occurred or could reasonably be expected to occur:

(i) A Member is inhibited from promptly completing transactions or promptly discharging the Member's responsibilities to clients, to other members or to the industry;

(ii) Material financial loss is suffered by the Member, clients or the industry;

(iii) Material misstatements occur in the Member's financial statements; and

(iv) Violations of the rules or standards occur to the extent that could reasonably be expected to result in the conditions described in (i) to (iii) above.

Other ~~Policy~~ Rule Statements in this series set out control objectives, required and recommended firm policies and procedures and indications that internal control is not adequate. While recommended firm policies and procedures will be appropriate in many cases to meet the stated objectives, they constitute merely one of a number of methods which a Member may utilize. It is recognized that Members may conduct their business in compliance with legal and regulatory requirements although they may employ procedures which differ from the recommended firm policies and procedures contained in these ~~Policy~~ Rule Statements. The information is designed to provide guidance to member firms in the preparation of procedures tailored to the specific needs of their individual environment in meeting the stated control objectives.

Members must maintain a detailed written record which as a minimum should include the specific policies and procedures approved by senior management to comply with these ~~Policy~~ Rule Statements. These policies and procedures must be reviewed and approved in

writing by senior management at least annually, or more frequently as the situation arises, for their adequacy and suitability. One method of documentation is to note on a copy of this ~~Policy~~ Rule Statement the recommended policies and procedures which have been selected, and details of their performance such as who performs them, when, and how performance is evidenced. Other forms of documentation, such as procedures manuals, flow charts and narrative descriptions are recommended.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 2 - CAPITAL ADEQUACY

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

This ~~Policy~~ Rule Statement focuses on the monitoring of a Member's capital position, principally through its system of management and financial reporting. The effectiveness of such monitoring depends in large measure on the timeliness, completeness and accuracy of the accounting books and records from which those management reports are drawn. Establishing and maintaining policies and procedures to ensure such timeliness, completeness and accuracy is part of a Member's responsibility for internal control. However, these matters are outside the scope of this ~~Policy~~ Rule Statement 2.

Control Objective

To monitor and act upon information produced by the management reporting system so that Risk Adjusted Capital is maintained at all times in an amount at least equal to the minimum required by ~~MFDA~~ the Rules.

Minimum Required Firm Policies and Procedures

1. A member of senior management (such as the Chief Financial Officer, Chief Operating Officer or Chief Executive Officer) is responsible for continuous monitoring of the capital position of the firm to ensure that at all times Risk Adjusted Capital is maintained as prescribed by the ~~MFDA~~ Rules.

2. The Member's planning process recognizes the projected capital requirements resulting from current and planned business activities.

3. At least monthly, or more frequently if required (e.g. when the Member is operating close to early warning levels), the member of senior management assigned the task for monitoring the capital position documents that he/she has:

(a) Received management reports produced by the accounting system showing information relevant to the calculated capital position;

(b) Obtained other information concerning items that, while they may not yet be recorded in the accounting system, are likely to significantly affect the capital position (e.g. bad and doubtful debts, unreconciled positions);

(c) Calculated the capital position, compared it to planned capital limits and the prior period and reported adverse trends or variances to senior management.

4. Senior management takes prompt action to avert or remedy any projected or actual capital deficiency and reports any deficiencies, when required, immediately to the appropriate regulators.

5. The month-end estimate of required risk adjusted capital is reconciled to the Monthly Financial Report submitted for regulatory filing. Material discrepancies are investigated and steps are taken to preclude re-occurrence.

6. At least annually, the member of senior management assigned the task for monitoring the capital position documents a supervisory review of the Member's management reporting system related to capital, to identify and implement changes required to reflect developments in the business or in the regulatory requirements.

Indications That Internal Control Is Not Adequate

- The accounting system produces information that is late or requires correction.
- Staff responsible for preparing risk adjusted capital reports lack an understanding of the regulatory requirements.
- The Chief Financial Officer or person designated with the supervisory tasks of monitoring the capital position of the firm lacks an understanding of the regulatory requirements.
- No steps are taken to establish the reliability of management reports utilized to monitor the capital position.
- Planning procedures fail to take into account the impact of planned activities on required capital.
- The Member is operating near its early warning levels.
- The Member experiences significant unexpected changes in its capital position.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 3 - INSURANCE

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

Control Objective

To ensure that:

(a) The Member is in compliance with regulatory requirements for insurance;

(b) Other insurance coverage is in accordance with business needs; and

(c) Insurable losses are identified and claimed on a timely basis.

Minimum Firm Policies And Procedures

1. Insurance requirements and levels of coverage are reviewed and approved at least annually by the Member firm's Executive Committee or Board of Directors.

2. A senior officer of the firm is designated by the Member's Executive Committee or Board of Directors as responsible for insurance matters.

3. The senior officer or designated person assigned the task reviews the terms of the insurance policies regularly and ensures that the Member's operating procedures are designed to result in compliance with ~~policy~~ rule terms and regulations.

4. The senior officer or designated person assigned the task monitors business changes to evaluate the need for changes in coverage or operating procedures.

5. The senior officer or designated person assigned the task monitors business operations to ensure that insured losses are identified, the insurer is notified and losses are claimed on a timely basis and their effect on aggregate limits are taken into account.

6. Senior management takes prompt action to avert or remedy any projected or actual insurance deficiency and reports any deficiencies, when required, immediately to the appropriate regulators.

Indications That Internal Control Is Not Adequate

- Staff responsible for insurance matters are ill-informed of their duties or insufficiently trained.
- Material breaches of insurance policies which could result in denial of coverage are not detected on a timely basis.

- No steps are taken to establish the reliability of reports utilized for the monitoring of variables that may affect insurance coverage.
- Failure to report claims or to recover claims thought to be covered.
- Deficiencies in coverage are indicated on regulatory capital filings.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 4 - CASH AND SECURITIES

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

Control Objective

To safeguard both firm and clients securities and cash so that:

(a) Securities and cash are protected against material loss; and

(b) Potential losses are detected and reported (for regulatory and insurance purposes) on a timely basis.

Minimum Required Firm Policies And Procedures

Trading-General

1. Trade confirmations or confirmation reports containing evidence of settlement activity ("confirmation records") are reconciled with the Member's trading blotters at least weekly.

2. The reconciliation should be performed by personnel who do not have the ability to enter transactional data.

3. Discrepancies between the Member's trading blotters and confirmation records must be investigated and resolved immediately.

Trading-Nominee Name Accounts

1. The Member has a proper written agreement with each acceptable securities location used to hold securities.

2. At least monthly, the information system produces a report (e.g. client positions) of securities owned by clients but registered in the name of or held by the Member that require segregation and a reconciliation with third party information (e.g. monthly statements from the fund company) is performed to identify deficiencies.

3. Where a deficiency exists, the Member of senior management designated the task of monitoring the capital position of the firm should be advised of the deficiency in order to determine if it impacts the Member's capital position.

4. There is supervisory review or other procedures in place to ensure the completeness and accuracy of the report of client holdings produced by the Member's information system.

5. Journal entries made to the Member or clients' securities holdings are properly reviewed and approved before processing.

6. The Member has a system in place to record and allocate the total amounts of dividends and interest payable and receivable at the due date.

7. Non-resident tax is withheld where applicable by law.

8. A system is in place to ensure appropriate reporting of client income for tax purposes, as required by law.

Cash-General

1. A senior official is responsible for reviewing and approving all bank reconciliations.

2. Bank accounts (including trust accounts) are reconciled, in writing, at least monthly with identification and dating of all reconciling items.

3. Journal entries to clear reconciling items are made on a timely basis and approved by management.

4. The reconciliation of bank accounts (including trust accounts), where practical, is not performed by someone with incompatible functions, including access to funds (both receipts and disbursements), access to record keeping responsibilities, including the authority to write or approve journal entries. At a minimum, the individual responsible for the reconciliation should be independent from the individual having access to funds.

5. Approval levels required to requisition a cheque are established by senior management.

6. Cheques are pre-numbered and numerical continuity is accounted for.

7. Blank cheques are properly safeguarded.

8. Cheques are signed by two authorized individuals.

9. Cheques are only signed when the appropriate supporting documentation is provided. The supporting documentation is cancelled after the cheque is signed.

10. Where facsimile signature is used, access to the machine is limited and supervised.

11. A limited number of authorized personnel are permitted to withdraw monies from bank accounts, including by way of electronic transfer.

Trust Accounts For Client Funds

1. All client cheques are recorded upon receipt by the Member and deposited to the trust account on the day of receipt. If a cheque is received after normal business hours, the cheque is deposited the following business day.

2. Deposits to the trust account are balanced daily against deposit records, receivable records, and mutual fund settlement records.

3. Members must segregate interest received that is payable to clients in respect of monies held in trust for clients in accordance with Rules 3.3.1 and 3.3.2.

4. Members that pay interest to clients in accordance with ~~MFDA~~ Rule 3.3.2(e) must maintain adequate records of amounts owing and paid to each individual client.

Indication That Internal Controls Are Inadequate

- There is a significant number and dollar value of unreconciled positions and balances.
- Significant differences in reconciliations are not resolved on a timely basis.
- A large number of staff is involved in reconciling positions.
- Material losses have occurred.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 5 - SEGREGATION OF CLIENTS' SECURITIES

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

This ~~Policy~~ Rule Statement is applicable where client securities are held by or in the name of the Member for the benefit of the client.

Control Objective

To segregate clients' securities so that:

(a) The Member is in compliance with regulatory and legal requirements for segregation; and

(b) Securities are not improperly used.

Minimum Required Firm Policies And Procedures

1. Securities requiring segregation are placed in "acceptable securities locations", as defined by ~~MFDA~~ the Rules, on a timely basis.

2. Written custodial agreements with applicable regulatory provisions exist for securities held at acceptable securities locations.

3. Securities are moved into or out of segregation only by authorized personnel.

4. A client is identified for each transaction.

5. At least monthly, the information system produces a report (e.g. client positions) of securities owned by clients but registered in the name of or held by the Member that require segregation and a reconciliation with third party information (e.g. monthly statements from the fund company) is performed to identify deficiencies.

6. Where a deficiency exists, the member of senior management assigned the task of monitoring the capital position of the firm should be advised of the deficiency in order to determine if it impacts the firm's capital position.

7. There is a monthly supervisory review of compliance with segregation requirements for clients' securities.

Indication That Internal Controls Are Inadequate

- Insufficient attention is paid to preventing violations of legal and regulatory provisions concerning securities held in segregation, including preventing the hypothecation of securities.

- Securities are held without a written custodial agreement.

13 RULE 500 - BRANCH REVIEW REQUIREMENTS

Introduction

This ~~Policy~~ Rule establishes minimum standards for the development and implementation of branch and sub-branch review procedures. All references to "branch" in this ~~Policy~~ Rule include sub-branches as defined in ~~MFDA By-law~~ Rule No.1.

Members are responsible for establishing, implementing and maintaining policies and procedures to ensure that business is conducted and managed in accordance with ~~MFDA~~ By-laws, the Rules ~~and Policies~~ and with applicable securities legislation. Under ~~MFDA Policy~~ Rule 200, the Member is required to conduct an on-going review of sales compliance procedures and practices at both head office and at branch offices to confirm that these procedures are adequately fulfilling the purposes for which they have been designed. The requirement to complete regular branch reviews is consistent with these obligations and will serve to enhance the Member's ability to meet the fundamental supervision requirements under ~~MFDA~~ By-laws and~~,the~~ Rules ~~and Policies~~.

The intent of this ~~Policy~~ Rule is to establish minimum standards for internal branch review programs ("Branch Review Program"), while allowing Members sufficient flexibility to develop procedures that are appropriate to the Member's size and business model. Accordingly, strict adherence to the minimum standards as set out in this ~~Policy~~ Rule will not necessarily ensure that a Member's Branch Review Program is effective to ensure proper supervision and compliance with ~~MFDA~~ Rules. The objective is for Members to create and effectively implement processes that maximize their ability to detect potential compliance issues, so that corrective action may be taken before serious problems occur. ~~MFDA~~ S~~s~~taff will assess the effectiveness of the Member's Branch Review Program in the course of conducting compliance examinations and may impose additional requirements to ensure compliance with ~~MFDA By-laws,~~the Rules ~~and Policies~~.

Branch Review Procedures

Each Member must establish a Branch Review Program to effectively assess and monitor compliance with regulatory requirements at all branch locations.

(a) ***General Requirements***

- The Branch Review Program must include an assessment of the supervisory procedures and practices in place at the branch, as well as the quality of execution of those procedures.

- The Branch Review Program must address all significant aspects of the Member's policies and procedures manual and ~~MFDA~~ By-laws~~,~~ and the Rules ~~and Policies~~.

- The Branch Review Program must include interviews with branch supervisors and a selection of other Approved Persons along with substantive testing to verify the accuracy of information that is provided in the interviews. Substantive testing

should involve reviewing client files, trade blotters, trust account records, advertising and marketing material and other relevant records.

(b) ***Branch Interviews***

- The purpose of the interviews is to confirm that the branch manager and Approved Persons are aware of requirements under ~~MFDA~~ By-laws, the Rules ~~and Policies~~ and applicable securities regulation. It is particularly important that the reviewer confirm that the branch manager has a good understanding of the fundamental supervisory requirements. The interview process also serves as a forum for the branch manager and Approved Persons to raise and discuss issues and areas of regulatory concern.

- The interviews must also include discussion about branch policies and procedures relating to:

  - products and services offered to clients;
  - complaints;
  - advertising and sales communications;
  - referral arrangements;
  - outside activities;
  - account opening procedures; and
  - other branch and sub-branch supervision issues.

(c) **Review of Trade Blotters and Other Supervisory Review Documentation**

- Documentation must be reviewed to confirm that trade reviews have been performed adequately and in a timely manner covering the minimum requirements of ~~MFDA Policy~~ Rule 200. This includes a review to confirm that all trades in exempt securities and a sample of initial trades, leveraged transactions, trades made in accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client, and trades in speculative funds have been reviewed. Samples of different types of transactions, including purchases, switches and redemptions must be reviewed. Trade blotters must be reviewed to assess:

  - trading patterns;
  - evidence of supervision; and
  - timeliness of review.

- The suitability of individual trades must be assessed to confirm that the quality of trade supervision is consistent with the Member's standards and regulatory expectations.

- Trade supervision records must also be reviewed to confirm the recording of issues noted by supervisory staff, inquiries made, responses received and resolutions achieved.

(d) Review of Client Files

- Client files must be examined to verify that there is proper account opening documentation on file and that branch client files are appropriately safeguarded. Know-your-client information must be reviewed to:

- assess completeness;

- confirm that back up for any changes has been maintained on file; and

- confirm that KYC information on the back office system matches with that recorded in the files.

- The branch review process must confirm that account opening approval procedures have been properly followed, where these are the responsibility of branch staff.

- Client files must be examined to verify that proper evidence of client instructions and any relevant trading authorizations have been maintained on file. Files should be reviewed to assess the adequacy of notes regarding advice or recommendations provided to the client, as well as notes regarding discussions relating to fees and services, if any.

Trade orders must be reviewed to:

- assess suitability;

- detect unlicensed / out-of-province trading;

- confirm proper identification of leveraged trades; and

- confirm timeliness of trade processing.

(e) Review of Sales Communications, Advertising and Client Communications

- The Branch Review Program must include a review of sales communications, advertising and client communications, including business cards, letterhead and websites to confirm that any required approvals have been obtained.

- The branch review process must also involve, where appropriate, discussions and testing to detect:

- misleading communications;
- trade names of Approved Persons that have not been approved by the Member;
- undisclosed outside activities or personal financial dealings with clients;
- securities related business conducted outside of the Member; and
- undisclosed referral arrangements.

  - Where the reviewer detects a potential material deficiency with respect to the conduct of outside activity or personal financial dealings under ~~MFDA By-laws,~~ the Rules ~~or Policies~~, the Branch Review Program must provide for the review of files of Approved Persons relating to non-Member business.

(f) Complaints

- The branch review process must confirm that any complaints that may have been made involving individuals at the branch have been recorded and handled in accordance with Member procedures and ~~MFDA By-laws,~~ the Rules ~~and Policies~~.
- The nature of any complaints, as well as the timeliness and fairness of resolution must be assessed.
- The branch review process must confirm that all complaints and pending legal actions are made known to the compliance officer at head office (or another person at head office designated to receive such information) within two business days in accordance with ~~MFDA Policy~~ Rule 300. ("Handling Client Complaints").

Scope of Review

Sample size and the extent of the review are matters of discretion for the Member. However, at a minimum, the review should involve a preliminary screening of the branch that is sufficient to provide a reasonable indication of items or issues for further investigation. Sample size and the extent of review must be reasonable based on a number of factors such as:

- the specific activities at the branch;
- complaint history;
- number of Approved Persons at the branch;
- trade volume/commissions earned;
- results of previous reviews;
- ~~MFDA~~ compliance examination findings;

- daily trade supervision issues;
- experience of supervisory staff at the branch;
- supervisory tools used at the branch (manual or automated);
- the nature of or outside activities carried on at the branch;
- the volume of leveraged trades; and
- the date of the last review.

Branch Review Cycle and Schedule

The Member must be able to justify its branch review schedule and cycle by developing a risk-based methodology to rank branch locations as high, medium or low risk using appropriate criteria. Such criteria would include the factors set out above under "Scope of Review". Members are generally expected to perform an on-site review of their branches no less than once every three years. However, Members must review certain branches more frequently than once every three years if justified based on risk. Where, under unusual circumstances, a Member exceeds a three year branch review cycle, the Member must be able to justify the longer review cycle by demonstrating that the branches that have not been subject to an on-site review are low risk and have been subject to alternative compliance review procedures performed by head office, such as an off-site desk review. Under no circumstances however, should a Member never perform an on-site review of a branch.

The branch review cycle and the status of completion of the branch review cycle against benchmarks should be included as part of the annual compliance report to the board of directors or partners of the Member required by ~~MFDA~~ Rule 2.5.2(b).

Qualifications for Reviewers

The individuals responsible for performing the branch reviews must have the training, skills and proficiency necessary to accomplish the objectives of the review program. The individuals must possess sufficient knowledge not only to be able to follow prescribed procedures, but to be able to know where follow up review should be pursued. In addition, Members should ensure that individuals delegated the responsibility to perform branch reviews have adequate existing time or whether workloads can be rescheduled in order to provide the time necessary for proper performance.

Individuals that have successfully completed the courses required for designation as a branch manager as set out under ~~MFDA~~ Rule 1.2.2(a) or that have equivalent experience, training or education would generally be considered sufficiently qualified to perform branch reviews. The Member must consider the responsibilities and functions that are performed as part of a branch review and make the determination of what constitutes equivalent experience, training or education sufficient to qualify an individual as a branch

reviewer. The Member will be required to satisfy the ~~MFDA~~ that the equivalency standard has been met.

Equivalent experience, training or education may include: audit experience, legal training in the area of securities or mutual fund regulation, or experience in a regulatory supervisory or compliance role. Members may also have an internal training program for branch reviewers, which may satisfy the equivalency test.

The branch reviewer must be independent of the branch and the branch manager, so as to ensure that the reviewer can act objectively without preconceived opinions and is not subject to inappropriate influence when performing the review.

Reporting of Results

All serious issues detected in the branch reviews must be made known to the compliance officer at head office (or another person at head office designated to receive such information) within a reasonable period of time.

Each Member must also ensure that branch managers are made aware of all issues that are identified in the branch review in a timely manner. In addition, Approved Persons at the branch should be made aware of issues identified in the report relevant to them.

The report to the branch manager on the results of the branch review must include the following information:

- the date of the review;
- basic branch information, including the Approved Persons and staff at the branch location;
- details of any compliance deficiencies noted in completing the branch review including missing documentation or any gaps in supervision;
- the date of the report; and
- the date by which a response is required.

Follow Up of Branch Review Findings

The Member must have procedures in place to ensure that the issues identified in the course of the branch review are followed up and resolved. Therefore, the Branch Review Program must provide for:

- consistent and timely reporting of results;
- a means of tracking responses to the reports; and

- a means of ensuring that the branch implements all required changes in a reasonable amount of time.

Branch Review Files

Members must maintain orderly, up-to-date files for each branch that has been reviewed. The files must include details of the procedures performed at the branch and all working papers to support the work done and provide evidence of any deficiencies noted. All follow-up documentation, including the report to the branch manager, must also be included in the file. Records must be maintained for a period of seven years and must be made available for review by the ~~MFDA~~ Corporation, if requested.

Branch review records should be used to identify significant deficiencies that may disclose a need for further education and training of branch supervisors, Approved Persons, or other staff. When systemic issues are detected through the branch review process, a review of internal procedures and practices may be warranted.

14 RULE 600 – INFORMATION REPORTING REQUIREMENTS

1. Introduction

This ~~Policy~~ Rule establishes minimum requirements concerning events that Approved Persons are required to report to Members and events that Members are required to report to the Corporation ~~MFDA~~ pursuant to Rule 1.4.

Part A of this ~~Policy~~Rule, entitled "*Approved Person Reporting Requirements*", sets out details regarding the reporting of information under Rule 1.4(b) by Approved Persons.

Part B of this ~~Policy~~Rule, entitled "*Electronic Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.4(a)(i) and Rule 1.4(a)(ii) by Members. All reporting under Part B must be submitted through the electronic reporting system provided by the ~~MFDA~~ Corporation. The reporting of events that are required to be submitted electronically by any other means is a failure to report the event and a failure to comply with this ~~Policy~~Rule.

Part C of this ~~Policy~~Rule, entitled "*Other Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.4(a)(iii) by Members. All reporting under Part C must be submitted to the ~~MFDA~~ Corporation in writing.

In addition to these reporting requirements, Members are required to comply with other reporting requirements which may change from time to time, and which include but are not limited to:

(a) ~~MFDA~~ The following reporting requirements, some of which may also require ~~MFDA~~ approval by the Corporation:

(i) General By-law No. 1~~By-law~~~~Rule~~ ~~No. 1 section 13.7~~, section 3.7 ~~– Reorganizations, mergers and amalgamations~~ Amalgamation of Members;

~~(i)~~(ii) General By-law No. 1, section 3.8 – Dealer Member Resignation;

(iii) ~~By-law~~~~Rule~~ ~~No. 1 section 13.9~~ General By-law No.1 ~~—~~, section 3.10 – Transferability, Reorganizations~~Changes in ownership and control~~;

~~(ii)~~(iv) Rule 8.4 – Ownership;

~~(iii)~~(v) Rule 1.1.6 – Introducing/Carrying dealer arrangements;

~~(iv)~~(vi) Rule 3.1.1 – Change in dealer level;

~~(v)~~(vii) Rule 3.1.2 – Risk adjusted capital less than zero;

~~(vi)~~(viii) Rule 3.2.5 – Accelerated payment of long term debt; and

~~(vii)~~(ix) Rule 3.5 – Financial filing requirements

(b) reporting requirements under applicable provincial securities laws in connection with a Member's mutual fund dealer registration.

2. Definitions

"any jurisdiction" means any jurisdiction inside or outside of Canada.

"business day" means a day other than Saturday, Sunday or any officially recognized Federal or Provincial Statutory holiday.

"civil claim" includes civil claims pending before a court or tribunal and arbitration.

"client" means a person who is a client of the Member.

"compensation" means the payment of a sum of money, securities, reversal or inclusion of a securities transaction (whether the transaction has a realized or unrealized loss) or any other equivalent type of entry which is intended to compensate a client or offset an act of a Member or Approved Person. A correction of a client account or position as a result of good faith trading errors and omissions is not considered to be "compensation" for the purposes of this ~~Policy~~Rule.

"event" means a matter that is reportable under this ~~Policy~~ Rule by a Member or Approved Person.

"law" includes, but is not limited to, all legislation of any jurisdiction and includes any rules, policies, regulations, rulings or directives of any securities regulatory authority of any jurisdiction.

"member business" means all business activities conducted by and through the Member, whether securities related or otherwise.

"misrepresentation" means:

(i) an untrue statement of fact, either in whole or in part; or

(ii) an omission to state a fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

"regulatory body" means, but is not limited to, any regulatory or self-regulatory organization that grants persons or organizations the right to deal with the public in any capacity.

"regulatory requirements" means, but is not limited to, the by-laws, rules, policies, regulations, rulings, orders, terms and conditions of registration, or agreements of any regulatory body in any jurisdiction.

"securities" includes exchange contracts, commodity futures contracts and commodity futures options.

"service complaints" means:

(i) any complaint by a client which is founded on customer service issues and is not the subject of any securities law or regulatory requirements; or

(ii) any complaint by a client as a result of a good faith trading error or omission.

3. General Reporting Requirements

3.1. Events regarding Members that must be reported shall not be limited solely to securities related business, but shall include all member business.

3.2. Events regarding Approved Persons that are reported by Approved Persons to the Member shall not be limited solely to securities related business and member business, but shall include all business conducted by the Approved Person.

3.3. The obligation to report an event under this ~~Policy~~ Rule is limited to events of which a Member or Approved Person has become aware regardless of the means by which the Member or Approved Person became aware of the event. If the reporting timeframes have expired before the Member or Approved Person has become aware of the event, the event shall be reported immediately after the Member or Approved Person has become aware of such event.

3.4. A Member is expected to be aware of events relating to Approved Persons by the receipt of reports from Approved Persons and by carrying out the Member's supervisory, monitoring and review obligations over the conduct of its business.

3.5. All requirements to report events regarding former Approved Persons are limited to events which occurred while the Approved Person was an Approved Person of the Member.

3.6. A Member shall designate a compliance officer at its head office (or another person at head office) to whom reports made by Approved Persons, as required by section 4, shall be submitted.

3.7. Documentation associated with each event required to be reported under this ~~Policy~~ Rule shall be maintained for a minimum of 7 years from the resolution of the matter and made available to the ~~MFDA~~ Corporation upon request.

PART A

APPROVED PERSON REPORTING REQUIREMENTS

4. Approved Person Reporting Requirements

4.1. An Approved Person shall report the following events to his or her current Member in such detail as required by the Member, within 2 business days:

(a) the Approved Person is the subject of a client complaint in writing;

(b) the Approved Person is aware of a complaint from any person, whether in writing or any other form, and with respect to him or herself, or any other Approved Person, involving allegations of:

(i) theft, fraud, misappropriation, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading;

(ii) a breach of client confidentiality;

(iii) engaging in securities related business outside of the Member;

(iv) engaging in an undeclared outside activity ; or

(v) personal financial dealings with a client.

(c) whenever the Approved Person has reason to believe that he or she has or may have contravened, or is named as a defendant or respondent in any proceeding, in any jurisdiction, alleging the contravention of:

(i) any securities law; or

(ii) any regulatory requirements.

(d) the Approved Person is charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;

(e) the Approved Person is named as a defendant in a civil claim, in any jurisdiction, relating to the handling of client accounts or trading or advising in securities;

(f) the Approved Person is denied registration or a license that allows the Approved Person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions;

(g) the Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is deemed insolvent;

(h) there are garnishments outstanding or rendered against the Approved Person.

PART B

ELECTRONIC REPORTING REQUIREMENTS FOR MEMBERS

5. General Member Electronic Reporting Requirements

5.1. Members shall report the following events to the ~~MFDA~~ Corporation, through an electronic reporting system provided by the ~~MFDA~~Corporation, within 5 business days of the occurrence of the event, except for events reported under section 6.1(a) of this ~~Policy~~Rule, which must be reported to the ~~MFD~~Corporation ~~A~~ within 20 business days.

6. General Events to be Reported

6.1. Members shall report to the ~~MFDA~~ Corporation:

(a) all client complaints in writing, against the Member or a current or former Approved Person, relating to member business, except service complaints;

(b) whenever a Member is aware, through a written or verbal complaint or otherwise, that the Member or any current or former Approved Person has or may have contravened any law or regulatory requirement, relating to:

(i) theft, fraud, misappropriation, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading;

(ii) a breach of client confidentiality;

(iii) engaging in securities related business outside of the Member;

(iv) engaging in an undeclared outside activity; or

(v) personal financial dealings with a client.

(c) whenever the Member, or a current or former Approved Person, is:

(i) charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;

(ii) named as a defendant or respondent in, or is subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of any securities law;

(iii) named as a defendant or respondent in, or is the subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of regulatory requirements;

(iv) denied registration or a license that allows a person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions;

(v) named as a defendant in a civil claim, in any jurisdiction, relating to handling of client accounts or trading or advising in securities.

(d) whenever an Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is deemed insolvent;

(e) there are garnishments outstanding or rendered against the Member or an Approved Person.

7. Reporting of Updates and Resolution of Events

7.1. Members shall update event reports previously reported to reflect updates to, or the resolution of, any event that has been reported pursuant to section 6.1 of this ~~Policy~~ Rule within 5 business days of the occurrence of the update or resolution and such update or resolution shall include but not be limited to:

(a) any judgments, awards, arbitration awards or orders and settlements in any jurisdiction;

(b) compensation paid to clients directly or indirectly, or any benefit received by clients from a Member or Approved Person directly or indirectly;

(c) any internal disciplinary action or sanction against an Approved Person by a Member;

(d) the termination of an Approved Person;

(e) the results of any internal investigation conducted.

8. Other Events to be Reported

8.1. For matters that are not the subject of an event report in section 6.1 of this ~~Policy~~Rule, the Member shall report to the ~~MFDA~~ Corporation:

(a) whenever the Member has initiated disciplinary action that involves suspension, demotion or the imposition of increased supervision on an Approved Person;

(b) whenever the Member has initiated disciplinary action that involves the withholding of commissions or the imposition of a financial penalty in excess of $1000;

(c) whenever an employment or agency relationship with an Approved Person is terminated and the Notice of Termination filed with the applicable securities commission discloses that the Approved Person was terminated for cause, or discloses information regarding internal discipline matters or restrictions for violations of regulatory requirements;

(d) whenever the Member or Approved Person has paid compensation to a client either directly or indirectly in an amount exceeding $15,000.

PART C

OTHER REPORTING REQUIREMENTS FOR MEMBERS

9. Other Information Reporting Requirements for Member

9.1 Members shall report the events under Part C of this ~~Policy~~ Rule to the ~~MFDA~~ Corporation, in writing, within 5 business days of the occurrence of the event, except for events reported under section 10 of this ~~Policy~~Rule, which must be reported to the ~~MFDA~~ Corporation immediately.

10. Bankruptcy, Insolvency and Related Events

10.1. Members must report to the ~~MFDA~~ Corporation whenever:

(a) the Member is declared bankrupt;

(b) the Member makes a voluntary assignment in bankruptcy;

(c) the Member makes a proposal under any legislation relating to bankruptcy or insolvency;

(d) the Member is subject to, or instituting any proceedings, arrangement or compromise with creditors;

(e) a receiver and/or manager assumes control of the Member's assets.

11. Change of Name

11.1. Members must report to the ~~MFDA~~ Corporation any change with respect to:

(a) the legal name of the Member;

(b) the names under which the Member carries on business (trade or style names);

(c) trade, business or style names, other than that of the Member, used by Approved Persons.

The name of the Approved Person, the trade or business name the Approved Person is using, and the Approved Person's branch location must be provided.

12. Change of Contact Information

12.1. Members must notify the ~~MFDA~~ Corporation of any change in address for service or main telephone or fax number.

13. Change in Member Registration or Licensing

13.1. Members must report to the ~~MFDA~~ Corporation any changes in the following:

(a) type of registration or licensing with the relevant securities commission;

(b) jurisdictions in which any dealer business of the Member is conducted; and

(c) investment products traded or dealt in.

14. Changes in Organizational Structure

14.1. Members must report to the ~~MFDA~~ Corporation any changes in a Member's directors, chief executive officer, ultimate designated person, chief compliance officer, chief financial officer, or chief operating officer or individuals performing the functional equivalent of any of those positions.

15. Other Business Activities

15.1. Members must report to the ~~MFDA~~ Corporation any business, other than the sale of investment products, which the Member engages in or proposes to engage in.

16. Change of Auditor

16.1. Members must report to the ~~MFDA~~ Corporation any change in a Member's auditor and/or audit engagement partner. A new Letter of Acknowledgement ~~(Schedule H.1 of the MFDA Membership Application Package)~~ must be submitted to the ~~MFDA~~ Corporation.

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15 RULE 700 – PERFORMANCE REPORTING

Purpose

Under Rule 5.3.4 (Performance Report), Members are required to deliver a performance report to a client. The purpose of this ~~Policy~~ Rule is to set out additional requirements that Members must comply with when meeting requirements under ~~MFDA~~ Rules respecting the performance report.

General Requirements

(1) The performance report required under Rule 5.3.4 must be delivered in a separate report for each account of the client;

(2) Notwithstanding subsection (1), a Member may provide a performance report that consolidates, into a single report, the required information for more than one of a client's accounts if:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(3) Where a consolidated performance report is sent to a client, pursuant to subsection (2), above and a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3), both consolidated reports must consolidate information for the same accounts.

(4) The requirement to provide a performance report, as prescribed under Rule 5.3.4, does not apply to a client account that has existed for less than a 12-month period.

(5) A Member is not required to provide a performance report to a client for a 12-month period referred to in Rule 5.3.4 if the Member reasonably believes no market value can be determined for any investments of the client.

Content of Performance Report

(1) A performance report required to be delivered under Rule 5.3.4 must include all of the following in respect of investments reported on the account statement required to be delivered under Rule 5.3.1:

(a) the market value of all cash and investments in the client's account as at the beginning of the 12-month period covered by the report;

(b) the market value of all cash and investments in the client's account as at the end of the 12-month period covered by the report;

(c) the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the account, in the 12-month period covered by the report;

(d) the market values determined under subsection (1.1);

Annual Change in Market Value

(e) the annual change in the market value of the client's account for the 12-month period covered by the performance report, determined using the following formula:

$$\mathbf{A - B - C + D}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

B = the market value of all cash and investments in the account at the beginning of that 12-month period;

C = the market value of all deposits and transfers of cash and investments into the account in that 12-month period; and

D = the market value of all withdrawals and transfers of cash and investments out of the account in that 12-month period.

Cumulative Change in Market Value

(f) subject to subsection (1.2), the cumulative change in the market value of the account since the account was opened, determined using the following formula:

$$\mathbf{A - E + F}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

E = the market value of all deposits and transfers of cash and investments into the account since account opening; and

F = the market value of all withdrawals and transfers of cash and investments out of the account since account opening.

Annualized Total Percentage Return

(g) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry;

(h) the definition of "total percentage return" set out under Rule 5.3(1) and a notification indicating the following:

(i) that the total percentage return in the performance report was calculated net of charges;

(ii) the calculation method used; and

(iii) a general explanation in plain language of what the calculation method takes into account.

(1.1) For the purpose of paragraph 1(d), include the following, as applicable:

(a) if the client's account was opened on or after July 15, 2015, the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the client's account, since opening the account;

(b) if the client's account was opened before July 15, 2015, and the Member has not delivered a performance report for the 12-month period ending December 31, 2016:

(i) the market value of all cash and investments in the client's account as at

(A) July 15, 2015; or

(B) a date that is earlier than July 15, 2015, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, and

(ii) the market value of all deposits and transfers of cash and investments into the account and the market value of all withdrawals and transfers of cash and investments out of the account, since the date referred to in clause (i)(A) or (B), as applicable;

(c) if the client's account was opened before July 15, 2015, and the Member has delivered a performance report for the 12-month period ending December 31, 2016:

(i) the market value of all cash and investments in the client's account as at

(A) January 1, 2016; or

(B) a date that is earlier than January 1, 2016, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, and

(ii) the market value of all deposits and transfers of cash and investments into the account and the market value of all withdrawals and transfers of cash and investments out of the account, since the date referred to in clause (i)(A) or (B), as applicable;

(1.2) Paragraph 1(f) does not apply if the client's account was opened before July 15, 2015 and the Member includes in the performance report the cumulative change in the market value of the account determined using the following formula, instead of the formula in paragraph 1(f):

$$\mathbf{A - G - H + I}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

G = the market value of all cash and investments in the account determined as follows:

(a) if the client's account was opened before July 15, 2015, and the Member has not delivered a performance report for the 12-month period ending December 31, 2016, the market value of all cash and investments in the client's account as at:

(i) July 15, 2015, or

(ii) a date that is earlier than July 15, 2015, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, or

(b) if the client's account was opened before July 15, 2015, and the Member delivered a performance report for the 12-month period ending December 31, 2016, the market value of all cash and investments in the client's account as at:

(i) January 1, 2016, or

(ii) a date that is earlier than January 1, 2016, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date;

H = the market value of all deposits and transfers of cash and investments into the account since the date used for G; and

I = the market value of all withdrawals and transfers of cash and investments out of the account since the date used for G.

Annualized Total Percentage Return – Reporting Periods

(2) The information delivered for the purposes of paragraph (1)(g) must be provided for each of the following periods:

(a) the 12-month period covered by the performance report;

(b) the 3-year period preceding the end of the 12-month period covered by the report;

(c) the 5-year period preceding the end of the 12-month period covered by the report;

(d) the 10-year period preceding the end of the 12-month period covered by the report;

(e) subject to subsection (3.1), the period since the client's account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before July 15, 2015, the period since

(i) July 15, 2015, or

(ii) a date that is earlier than July 15, 2015 if the Member reasonably believes accurate, recorded annualized total percentage return information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date.

(3) Despite subsection (2), if any portion of a period referred to in paragraphs (2)(b), (c) or (d) was before July 15, 2015, the Member is not required to report the annualized total percentage return for that period.

(3.1) Paragraph (2)(e) does not apply to a Member that delivered a performance report for the 12-month period ending December 31, 2016 if the Member provides, in the report, the annualized total percentage return information referred to in paragraph (2)(e) for the period since

(a) January 1, 2016, or

(b) a date that is earlier than January 1, 2016 if the Member reasonably believes accurate, recorded annualized total percentage return information is

available for the client's account and it would not be misleading to the client to provide that information as at the earlier date.

Presentation

(4) The information required to be delivered under Rule 5.3.4 must be presented using text, tables and charts and must be accompanied by notes in the performance report explaining:

(a) the content of the report and how a client can use the information to assess the performance of the client's investments; and

(b) the changing value of the client's investments as reflected in the information in the report.

(5) If a Member delivers information required under Rule 5.3.4 in a report to a client for a period of less than one year, the Member must not calculate the disclosed information on an annualized basis.

(6) If a Member reasonably believes the market value cannot be determined for an investment position, the market value must be assigned a value of zero in the calculation of the information required to be delivered under Rule 5.3.4 and the fact that its market value could not be determined must be disclosed to the client.

16 RULE 800 – PROFICIENCY STANDARD FOR APPROVED PERSONS SELLING EXCHANGE TRADED FUNDS ("ETFs")

Purpose

Under Rule 1.2.3 (Education, Training and Experience), an Approved Person must not perform an activity that requires securities registration unless the Approved Person has the education, training, and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features, and risks of each security that the Approved Person recommends. A similar requirement exists under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103").

Conventional mutual funds are those that are traded as a primary distribution with the issuer. In contrast, ETFs are mutual funds that are traded in the secondary market on an exchange. The purpose of this ~~Policy~~ Rule is to set out minimum requirements that Members and Approved Persons must meet to ensure that advice and transactions in respect of the sale of ETFs by Approved Persons satisfy the proficiency, experience, and related requirements under Rule 1.2.3 and NI 31-103. Requirements under this ~~Policy~~ Rule do not apply to the sale of conventional mutual funds that invest in ETFs.

Background

~~MFDA~~ Members and their Approved Persons are permitted to sell ETFs that meet the definition of a mutual fund. However, there are important differences between ETFs and conventional mutual funds. With the exception of the Canadian Securities Course ("CSC"), existing courses and examinations used by Approved Persons to satisfy proficiency requirements under NI 31-103, in respect of the sale of conventional mutual funds, **do not** adequately address the sale of ETFs. As a result, additional measures must be taken to ensure that advice and transactions in respect of the sale of ETFs by Members and their Approved Persons meet the proficiency, experience, and related requirements under Rule 1.2.3 and NI 31-103.

ETF Proficiency and Training

Members must ensure that each Approved Person advising or transacting in ETFs has adequate proficiency, education, and training. In order to satisfy requirements under Rule 1.2.3, Approved Persons must receive appropriate training from the Member in respect of the following:

- information about the characteristics, features, benefits, and risks of ETFs; and
- how ETFs will be offered through the Member.

Member Policies and Procedures

Members are responsible for performing a reasonable level of due diligence on ETFs prior to their approval for sale. As part of this due diligence, Members are required to determine

if the ETF meets the definition of a mutual fund. Where ETFs are sold by a Member, the Member must have appropriate policies and procedures regarding their sale. Approved Persons must receive specific training on those aspects of the Member's policies and procedures that deal with advising and transacting in ETFs. Such training must, at a minimum, include:

- detailed product information in respect of the ETFs approved for sale by the Member;
- how market quotes will be obtained;
- the types of trades accepted and the information required for each trade accepted;
- the disclosure information required for each transaction;
- how evidence of trade instructions, whether executed or unexecuted, and disclosures will be maintained; and
- how trade orders will be processed.

ETF Product Training for Approved Persons

As noted above, there are existing courses and examinations used by Approved Persons to satisfy proficiency requirements under NI 31-103 in respect of the sale of conventional mutual funds. Some of the information in such courses overlaps with information that Approved Persons would be required to know and understand for the purpose of providing advice and transacting in ETFs. Training must focus on unique aspects of ETFs that Approved Persons must understand in respect of the particular ETF products offered through the Member. In addition, Approved Person training in this area must highlight key differences between ETFs and conventional mutual funds. Attached as Appendix "A" to this ~~Policy~~ Rule is a chart that sets out how new information and existing topics/concepts should be addressed as part of ETF product training for Approved Persons.

ETF product training for Approved Persons may be satisfied by courses offered through independent course providers, or training offered through the Member. In either case, the training must, at a minimum, address all of the matters included in the chart set out in Appendix "A".

Independent Course Providers

The following courses would be acceptable to meet ETF product training requirements for Approved Persons:

- ***"Exchange Traded Funds for Mutual Fund Representatives"*** – (Canadian Securities Institute);

- ***"The Exchange-Traded Funds Course"*** – (IFSE Institute);

- ***"Exchange Traded Funds for Representatives of Mutual Fund Dealers"*** – (Smarten Up Institute)

ETF Product Training Provided by Member

Where ETF product training for Approved Persons is provided by the Member, the training must include an examination to be successfully completed by the Approved Person. The Member must keep appropriate records of such training, as required under ~~MFDA~~ Rule No. 5 (Books, Records and Reporting). Examples include, but are not limited to, the following:

- attendance records;
- evidence of training sessions;
- content of training materials; and
- results of formal examinations.

Appendix "A"
ETF Product Training for Approved Persons – Chart

Below is a chart that sets out how new information and existing topics/concepts must, at a minimum, be addressed as part of ETF product training for Approved Persons.

Legend:

New Information	Content should be explained in detail. Generally a higher level of detail is expected. Should include comparison of ETFs and conventional mutual funds.
Existing Topics and Concepts	Existing topics and concepts should be explained in the context of ETFs. Should include comparison of ETFs and conventional mutual funds.

General Topic	Sub-Topics	Comment	Percentage Allocation
Introduction to ETFs	Definition of an Exchange-Traded Fund	Provide an ETF definition. Explain how they have attributes of both conventional mutual funds and stocks.	15
	Registration/licensing requirements and limitations	Review the registration requirements to sell mutual funds and the limitations of registration for Dealing Representatives. Review products that Dealing Representatives can and cannot sell.	
	Description of ETFs that may be sold by Approved Persons. For example, index tracking, actively managed, and quasi-active/quasi-passive ETFs	Describe in detail the types of ETFs that may be sold by Dealing Representatives.	
	Description of ETFs that may not be sold by Approved Persons. For example, leverage and inverse ETFs	Describe in general the types of ETFs that may not be sold by Dealing Representatives.	

General Topic	Sub-Topics	Comment	Percentage Allocation
Regulation of ETFs	Offering Documents • (National Instrument 41-101 – General Prospectus Requirements) Disclosure Requirements • Delivery of ETF disclosure document, as prescribed under securities legislation • Continuous Disclosure Investment Restrictions • Investment restrictions applicable to ETFs Independent Review Committee • Role and responsibility	Generally describe the regulation of ETFs including the offering documents, disclosure requirements, investment restrictions and the role of the Independent Review Committee. May include a summary of how the regulation of ETFs is similar/different than conventional mutual funds.	10

Characteristics of ETFs	Description of investment management styles:
	• Active vs. Passive
	• Quasi-Active/Quasi-Passive
	• Indexing
	  ○ What are indices?*
	  ○ Tracking an Index
	  ▪ Physical vs. Synthetic
	  ▪ Full Replication vs. Sampling
	  ▪ Tracking Error
		Describe Passive vs. Active investment management styles.
		
		Describe Quasi-Passive/Active investment management styles.
		
		Provide examples of each style.
		
		Define "Index" and describe in detail the different methods for tracking an Index.
		
		Explain, and give examples of, tracking errors.
			20

	Creation and Redemption of Units
	
	• Designated Brokers/Dealers/Market Makers
	• New ETFs
	  ○ In-kind creation
	  ○ In-cash creation
	• Existing ETFs
	  ○ Additional unit creation
	  ○ Redemption of units
	  ○ When number of units may change
		Describe generally the various roles and responsibilities of: Designated Brokers; Dealers; Market Makers.
		
		Describe in detail how new ETFs are created and funded.
		
		Describe how new units are created for existing ETFs.
		
		Describe how existing ETF units are redeemed.
		
		Describe circumstances where ETF units may be created or redeemed.	

	Operating Costs • Management fees • Operating expenses • Trading expenses • Trailing commissions	Generally describe the various operating costs that can apply to ETFs with a focus on differences between ETFs and conventional mutual funds.	

General Topic	Sub-Topics	Comment	Percentage Allocation
	Features and Benefits • Professionally Managed • Low cost • Transparency • Tax Efficiency • Liquidity • Diversification	Generally describe the features and benefits of ETFs with a focus on differences compared to conventional mutual funds. Explain that some features may only apply to certain ETFs (e.g. some ETFs may not be diversified).	

	General Risks
	• Market Risk
	  ○ Equity Risk
	  ○ Interest Rate Risk
	  ○ Currency Risk
	• Credit Risk
	• Foreign Investment Risk
	• Style Risk
	• Concentration Risk
	• Counter-party Risk
	• Tracking Error
	• Risk that market price differs from NAV
		Generally describe, with examples, each risk that can apply to ETFs.
		Explain in detail the risk of market price. Explain how market price differs from NAV pricing and that market price risk applies to ETFs and not conventional mutual funds.	

	Compare ETFs to: • Conventional Mutual Funds • Closed-End Funds • Exchange -Traded Notes	Provide a summary of key differences and similarities between ETFs and Conventional Mutual Funds, Closed-End Funds, and Exchange -Traded Notes.	

Exchange Trading	Introduction to Financial Markets
	• Describe Primary Market
	• Describe Secondary Markets*
	  ○ Auction Markets
	  ○ Dealer (Over-The-Counter) Markets
		Define the terms "Primary Market" and "Secondary Market".
		Describe in detail the various Secondary Markets focusing on the markets where ETFs will be traded. Details should include type of markets, market hours and any specific trading rules and requirements.
			40

	Trading on an Exchange
	• ETF Pricing
	  ○ Market pricing
	  ▪ Continuous during market open hours
	  ○ NAV pricing
	  ▪ End of day calculation
	  ▪ Daily, Weekly, Monthly
	  ○ Risk that market price differs from NAV
		Explain that ETFs have both a market price and a NAV calculation.
		Explain the difference between calculating a NAV and market price.
		Explain that ETFs may not trade at their NAV.	

General Topic	Sub-Topics	Comment	Percentage Allocation

	• Quotes system
	  o What is a Bid?
	  o What is an Ask?
	  o Bid/Ask Spread
	  o Last Trade Price
	  o Market Open/Market Close Price
		Define the terms "Bid", "Ask" and the "Bid/Ask spread".
		Explain in detail how to properly quote an ETF.
		Define the terms "Last Trade Price", "Market Open" and "Market Close".	

	• Market Depth and Liquidity
	  o What is a Board Lot/Odd Lot?
	  o Define Market Depth
	  o Liquidity
	  o Role of Market Makers
		Define terms "Board Lot", "Odd Lot", "Market Depth".
		Explain liquidity and the role of Market Makers for exchange traded securities.	

	• Distributions
	  o Define the term "ex-distribution"
	  o Describe distribution re-investment plans
		Define the term "ex-distribution" and explain what it means for trading purposes.
		Describe distribution re-investment plans for ETFs.	

	• UMIR Rules • Trading Halts • Circuit Breakers	Provide an overview of UMIR Rules and who has to follow them. Explain trading halts and circuit breakers including their purpose and when they are triggered.	

	Order Instructions
	• Types of orders (Market, Limit, Stop Limit etc.)
	  o Order Documentation
	  o Risks and benefits of each order type
	  o Best practices for order entry (e.g. in cases of buying or selling large number of shares)
		Describe the various types of orders including the information required for each order as well as the risks and benefits.
		Describe situations where certain order types may be better than others.	

General Topic	Sub-Topics	Comment	Percentage Allocation

	Order Entry
	• Order Processing
	  ○ Best Execution
	  ○ Exchange rules for placement and execution
	  ○ Changing Trade Instructions
	  ○ Cancelling Trade Instructions
	  ○ Trade Settlement
	  ○ Confirmations
	  ○ Transaction costs
	  ○ Trading as Principal vs. Agent
		Describe how orders must be processed on exchanges including best execution requirements (e.g. immediate execution), exchange rules, and how orders are filled.
		Describe how to change and cancel open orders.
		Discuss settlement, confirmations and costs.
		Briefly explain trading as Principal vs. Agent.	

Investing in ETFs	Review existing obligations for: • Know-Your-Client • Know-Your-Product • Suitability Obligation	Explain that existing obligations for KYC, KYP and suitability apply to the sale of ETFs. Explain that not all ETFs provide the same level of information as conventional mutual funds, such as risk rating, and that this information would have to be assessed by the Member in order to satisfy existing obligations.	15
	Portfolio Management • Alpha and Beta • Efficient Market Hypothesis • Describe different investment strategies for ETFs	Briefly explain the concepts of Alpha, Beta and Efficient Market Hypothesis. Describe in detail the roles an ETF can fill when constructing a portfolio.	

	Review the following and how they apply to ETFs:
	• Splits and Consolidations
	• PACs, SWPs
	• DRIPs
	• Taxation
	  ○ Income
	  ○ Capital Gains and Losses
	  ○ Dispositions
	• Custody
	  ○ Nominee name ("street form") vs. client name
		Review these common topics with a focus on how they are applicable to trading in ETFs.
		Describe in detail nominee name account records, including a comparison of how they differ from client name account records.	

**Additional resource materials, that provide more detail on different trading exchanges and common market indices, may be helpful for Approved Persons.*

17 RULE 900 – CONTINUING EDUCATION ("CE") REQUIREMENTS

Purpose

~~MFDA~~ Rule 1.2.6 prescribes continuing education requirements for Approved Persons of ~~MFDA~~ Members. The purpose of this ~~Policy~~ Rule is to establish minimum requirements for compliance with provisions under the Rule.

Definitions

(For the purposes of this ~~Policy~~Rule)

"date of participation" means the date upon which an Approved Person was registered under securities legislation, or designated by a Member under ~~MFDA~~ Rules, in one or more categories set out under ~~MFDA~~ Rule 1.2.6(b) and (c).

"Filer" means any Approved Person, Member, individual, or entity authorized by the Corporation to file CE credit completion reports with the Corporation on behalf of Approved Persons and Members.

"~~MFDA~~ CE reporting and tracking system" or ~~MFDA~~ CERTS means the online system established ~~by the MFDA~~ for the purpose of administering the ~~MFDA~~ CE program.

"Participant" means any Approved Person who is registered, during a cycle, as a dealing representative, chief compliance officer or ultimate designated person under Canadian securities legislation, or designated by the Member as a branch manager or alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ Rules.

"Provider" means any individual or entity offering a continuing education activity.

GENERAL CE CREDIT REQUIREMENTS

~~MFDA~~ Rule 1.2.6 (b) requires every Approved Person who is registered as a dealing representative under Canadian securities legislation to complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 ~~MFDA~~ Compliance Credits each cycle.

~~MFDA~~ Rule 1.2.6 (c) requires Approved Persons who are not registered as a dealing representative, but are registered as a chief compliance officer or ultimate designated person under Canadian securities legislation, or designated by the Member as a branch manager or alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ Rules, to complete 8 Business Conduct Credits and 2 ~~MFDA~~ Compliance Credits each cycle.

PART A

PRO-RATION OF CREDITS

Rule 1.2.6(d) addresses the application of CE requirements for a partial cycle. This section sets out details regarding the application of CE requirements for new and returning Participants, and where there is a change in participation for a Participant.

1. New Participants.

1.1. Requirements under Rule 1.2.6(b) or (c) do not apply to a Participant where their initial date of participation falls within the 23rd or 24th month of the cycle.

1.2. A Participant, who is in their first cycle, must satisfy the requirements for each CE component under Rule 1.2.6(b) and (c) on a pro-rata basis, where their initial date of participation falls within months 1 to 22 of that cycle. A pro-rata calculation made under this section must use the following formula:

$$\textbf{Total Number of Component Credits Required} = A \times \frac{B}{24}$$

where

A = the total number of credits required for the CE component in a full cycle (i.e. 8 for business conduct, 20 for professional development, and 2 for ~~MFDA~~ compliance); and

B = the total number of months remaining in the cycle, including the month of participation; and

The **Total Number of Component Credits Required is rounded up** to the nearest full credit.

2. Returning Participants.

2.1. A returning Participant who has been previously registered under securities legislation as a dealing representative, chief compliance officer or ultimate designated person, or has been previously designated by a Member under ~~MFDA~~ Rules as a branch manager, alternate branch manager or alternate chief compliance officer:

(a) must, within 10 business days of returning as a Participant, satisfy their outstanding CE credits, if any, from the immediately preceding cycle;

(b) is not required to satisfy the requirements under Rule 1.2.6(b) and (c) in the current cycle, if, as a returning Participant, their date of participation falls within the 23rd or 24th month of the cycle;

(c) must satisfy, on a pro-rata basis, the requirements for each CE component under Rule 1.2.6(b) and (c) for the current cycle, using the formula set out in section 1.2 above, provided that their date of participation falls within months 1 to 22 of the current cycle.

3. Change in Participation.

3.1 During the course of a cycle, there may be changes to a Participant's categories of registration under securities legislation, or to their designated categories under ~~MFDA~~ the Rules. As a result of such changes, the Participant may become subject to CE requirements which are different from those to which they were subject to earlier in that cycle. In such circumstances, the Participant must use the following formula to determine their requirements for each CE component for the cycle:

$$\textbf{Total Number of Component Credits Required} = A \times \frac{C}{24}$$

where

A = the total number of credits required for the CE component in a full cycle (i.e. 8 for business conduct, 20 for professional development, and 2 for ~~MFDA~~ compliance); and

C = the total number of months in the cycle, including each initial partial month, during which the component credit requirement was applicable; and

The **Total Number of Component Credits Required** is rounded up to the nearest full credit.

3.2 Notwithstanding the provisions under 3.1, a Participant is not required to satisfy the requirements for any CE component under Rule 1.2.6(b) or (c) for the current cycle, provided that the total number of months in the cycle during which the component credit requirements was applicable, including each initial partial month, is less than 3.

PART B

LEAVES OF ABSENCE

4. Leaves

4.1. ~~MFDA~~ Rule 1.2.6(e) permits a Member to reduce the CE credit requirements applicable to a Participant under Rule 1.2.6(b) or (c) in circumstances where the Participant was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person due to:

(a) Pregnancy or parental leave;

(b) Personal emergency leave;

(c) Family caregiver or medical leave;

(d) Personal illness or injury;

(e) Mandatory duty as a juror or witness; or

(f) Other similar leaves of absence defined under applicable provincial laws.

4.2. In order to reduce the number of CE credit requirements, the chief compliance officer, or their delegate, must:

(a) approve the reduction in the number of credits;

(b) maintain sufficient evidence and documentation to support their decision, including the following:

(i) how the calculation of the reduction in credits was determined;

(ii) the nature of the absence; and

(c) notify the Corporation of the reduction in the number of credits by filing a credit reduction report with the Corporation no later than 10 days following the end of each cycle in which the consideration was applicable.

4.3. A reduction in credits must be calculated using the formula outlined under 1.2 above.

PART C

COMPONENT CONTENT

This section sets out minimum standards for continuing education content. These standards should be considered in the context of what is reasonable based on the Participant's roles and responsibilities and the Member's operations. Members should have procedures for identifying appropriate training topic areas for their Participants.

5. Business Conduct.

5.1. Business Conduct content is educational material that promotes, directs and guides ethical and compliant conduct. It includes education regarding ethical issues, ~~MFDA~~ Rules ~~and Policies~~, other applicable legislation, and Member's policies and procedures for complying with regulatory requirements.

5.2. A single Business Conduct Credit consists of 1 hour of training in at least one of the following topic areas:

(a) Ethics;

(b) ~~MFDA~~ Rules ~~and Policies~~ and Member policies and procedures for complying with the Rules ~~and Policies~~; and

(c) Relevant legislation and its application.

5.3. For each cycle where a Participant is required to obtain at least 8 Business Conduct Credits, a minimum of 1 and maximum of 2 credits must be content relating to ethics.

5.4. Ethics related content refers to content that examines ethical principles and moral or ethical problems that may arise in performing duties on behalf of a Member, including the principles under Rule 2.1.1. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

5.5. Other business conduct topics include, but are not limited to:

(a) Conflicts of interests;

(b) Personal financial dealings;

(c) Regulatory requirements and initiatives that affect Member operations;

(d) Disclosure of information to clients;

(e) Documentation standards;

(f) Know-Your-Client;

(g) Suitability and new products;

(h) Know-Your-Product;

(i) Anti-money laundering laws and regulations and related Member policies and procedures;

(j) Security and privacy of information; and

(k) Complaint handling.

6. Professional Development.

6.1. Professional Development content is educational material that maintains or enhances a Participant's financial knowledge or proficiency.

6.2. A single Professional Development Credit consists of 1 hour of training in at least one of the following topic areas:

(a) Products;

(b) Financial planning;

(c) Retirement planning;

(d) Investment strategies and asset allocation;

(e) Client management techniques;

(f) Economics, Accounting, and Finance;

(g) Tax planning;

(h) Estate planning; and

(i) Insurance.

7. ~~MFDA~~ Compliance.

7.1. ~~MFDA~~ Compliance content is education material relating to the conduct of Members and Participants that has been specifically designated by the Corporation. ~~MFDA~~ Compliance content will include areas relating, but not limited, to, compliance examination findings, ~~MFDA~~ Compliance and Enforcement priorities, and proposed Rule ~~and Policy~~ changes.

7.2. The two ~~MFDA~~ Compliance Credits must be obtained by completing continuing education activities specifically designated by the Corporation.

PART D

DELIVERY STANDARD

8.1. Members may provide required content through their own training initiatives or through third parties.

8.2. For a CE activity to qualify under this ~~Policy~~Rule and Rule 1.2.6, it must be a structured activity where attendance is tracked, the CE content is accredited, and, as applicable, delivery of the CE content and evidence of completion has been documented.

PART E

ACCREDITATION

9.1. Accreditation of a continuing education activity is required prior to the CE credits being eligible for reporting on CERTS.

9.2. Accreditation can be completed by:

(a) A~~n~~ Member;

(b) A Third Party recognized by the Corporation ("Third Party Accreditor");

(c) Chambre de la sécurité financière ("Chambre"); or

(d) Investment Industry Regulatory Organization of Canada ("IIROC").

9.3. All accreditations must use standard evaluation procedures based on the following criteria:

(a) There are adequate learning objectives and a training plan for the CE activity;

(b) The content of the CE activity is consistent with the stated learning objectives and training plan; the resources and materials provided to Participants support the stated learning objectives and are consistent with its CE content at the time of accreditation approval; and whether the CE activity has met its learning objectives;

(c) The content of the CE activity meets the related minimum standards set out under Part C of ~~MFDA Policy~~ Rule 900;

(d) The CE activity includes an adequate written plan for how it will be delivered;

(e) The CE activity is relevant to the Participant and/or the Member's business;

(f) The CE activity includes adequate details as to how attendance will be confirmed, and how completion of the activity by individual Participants will be recorded;

(g) The qualifications and experience of the trainer and Provider are adequate;

(h) Only one CE credit is assigned per one hour of training;

(i) The CE activity has a minimum of 0.5 credits (30 minutes) of accredited CE content with credits rounded to the nearest quarter (0.25) credit (15 minutes); and

(j) The CE activity is not a preparatory course, study guide or unstructured pre-reading.

9.4. For Member self-accreditations, the Member must maintain evidence of the education activity in sufficient detail to evidence compliance with 9.3.

9.5. Each accredited CE activity recognized by the Corporation will be assigned an eligibility period not longer than 2 years from the date of accreditation. When the eligibility period expires or there is a material change to the CE activity that a Member provides and the Member intends to continue to offer the CE activity, the Member must either re-perform self-accreditation or obtain accreditation from accreditors recognized by the Corporation. A material change, for the purposes of 9.5, will have occurred when one or more of the CE categories or content is no longer covered, the duration of the CE activity has changed, or testing of the CE activity has been removed. A material change may also occur when the format, delivery method or content has changed.

PART F

EVIDENCE OF COMPLETION

10.1. Evidence of completion for CE credits, as required under Rule 1.2.6, may be in the form of supporting documentation issued by the Provider, including certificates/other notices of completion, attendance records, or test results.

10.2. Members and Participants are not required to maintain evidence of completion for CE credits, where a Provider: (i) facilitates the delivery of accredited CE content, which meets the requirements under ~~MFDA~~ Rule 1.2.6 and ~~Policy~~ Rule 900; (ii) maintains records related to the completion of CE credits by Participants; and (iii) submits such records to the Corporation on behalf of such Participants, in accordance with the requirements under ~~Policy~~ Rule 900.

PART G

REPORTING

11.1. Members and Participants must use ~~MFDA~~ CERTS to comply with the reporting obligations of ~~MFDA~~ ~~Policy~~ Rule 900.

11.2. Only CE credits obtained during the assigned eligibility period may be used to satisfy the requirements under Rule 1.2.6. Credits obtained during any cycle may only be used to satisfy the prescribed credit requirements for that cycle or a previous cycle where a Participant has outstanding requirements from that previous cycle.

11.3. twithstanding the provisions of 11.2, Participants may carry forward to the next cycle a maximum of 5 excess Professional Development Credits.

11.4. Members and Participants must file reports of completed CE credits, and must ensure, where applicable, that any eligible third party filing reports of completed CE credits on their behalf files the reports, no later than 10 business days following the end of the cycle.

11.5. Notwithstanding the provisions under 11.4, when a Participant ceases to be an Approved Person of a Member, that Member must file a report of all completed CE credits for that Participant within 30 days.

PART H

ASSESSMENTS

12.1. The Corporation may, at its discretion, conduct a review of any accredited continuing education activity delivered to Participants including the records to be retained by a Member or Participant in respect of the CE credits reported to the Corporation.

12.2. In such instances, the Participant or Member shall be notified, in writing, by the Corporation of the continuing education activities being reviewed and will have 15 days to submit to the Corporation any documents and information requested as part of the assessment.

12.3. Failure by a Participant or Member to submit adequate evidence to support the continuing education activity delivered and the CE credits reported may result in the rejection by the Corporation of all or some of the reported CE credits associated with that continuing education activity. As a result of such rejection, the Participant may, for that cycle, be found to be non-compliant with the requirements under Rule 1.2.6.

PART I

NON-COMPLIANCE

13. Notification and Fees.

13.1. Where, for any given cycle, the Corporation's records indicate that a Participant has not met the requirements as prescribed under Rule 1.2.6 and ~~Policy~~ Rule 900, the Corporation shall notify the Participant's sponsoring Member of the non-compliance determination no later than 30 days from: (i) the end of the cycle, (ii)

for a returning Participant, upon failure to satisfy any outstanding credits from the immediately preceding cycle, or (iii) at the completion of an assessment of the records maintained by a Participant or Member where a rejection by the Corporation of reported CE credits has resulted in non-compliance for a Participant.

13.2. Where a Member has been notified of such non-compliance pursuant to paragraph 13.1 above, the Member shall have 15 days to submit a response for each non-compliance notification detailing a plan for each Participant to become compliant with the requirements under Rule 1.2.6 and this Rule.

13.3. Where, after receiving and reviewing the Member's response, the Corporation has determined that a Participant has not met the prescribed credit requirements for a given cycle, and the Corporation is not satisfied with the Member's response, the Corporation shall provide notification to the Participant's sponsoring Member indicating that the Participant is not to act as an Approved Person of any Member until such time as the Corporation has determined that the prescribed credit requirements have been met.

13.4. Where a Member has been notified pursuant to paragraph 13.3 above, the Member shall: (i) immediately provide appropriate notification of this matter to the applicable Participant, and (ii) promptly take all steps necessary to ensure that all impacted clients continue to receive service in accordance with requirements under ~~MFDA~~ the Rules.

13.5. Where the Corporation has determined that a Participant has not met the prescribed credit requirements for any given cycle, as prescribed under Rule 1.2.6 and ~~Policy~~ Rule 900, the Corporation may, for each such occurrence, impose a $2,500 fee on the Participant's sponsoring Member.

13.6. Members will have 30 days from the date of notification to pay the fee in full to the Corporation.

14. Reinstatement.

14.1. Where the Corporation has provided notification to a Participant's sponsoring Member pursuant to paragraph 13.3, the Member and Participant may file CE credit reports for that applicable cycle for review by the Corporation.

14.2. Where the Corporation subsequently determines that the Participant has met the prescribed credit requirements for that applicable cycle, notification will be delivered to the Participant's sponsoring Member stating that the Participant is in compliance with the requirements under Rule 1.2.6 and ~~Policy~~ Rule 900.

18 RULE 1000 – DISCLOSURE OF ~~MFDA~~ CORPORATION MEMBERSHIP

INTRODUCTION

This ~~Policy~~ Rule establishes minimum requirements for disclosure of ~~MFDA~~ Membership pursuant to ~~MFDA~~ Corporation Rule 2.13 (Disclosure of ~~MFDA~~ Corporation Membership). The Rule requires Members to include the ~~MFDA~~ Corporation Logo on account statements and on the Member's website. ~~MFDA~~ Members must use the ~~MFDA~~ Corporation Logo prescribed in this ~~Policy~~ Rule to satisfy the ~~MFDA~~ membership disclosure requirements set out in Rule 2.13.

The purpose of Rule 2.13 and this ~~Policy~~ Rule is to promote client awareness of the regulatory oversight exercised by the ~~MFDA~~ Corporation in respect of ~~MFDA~~ Members and their Approved Persons.

DEFINITION OF THE ~~MFDA~~ Corporation LOGO

Pursuant to ~~MFDA~~ Rule 2.13, the ~~MFDA~~ Corporation Logo means the logo prescribed by the Corporation, from time to time, for use by Members. For the purpose of the disclosure requirements prescribed in Rule 2.13, the ~~MFDA~~ Corporation Logo includes the image of the ~~MFDA's~~Corporation's trademark design and the English words "Regulated by ~~Mutual Fund Dealers Association of Canada~~ Corporation" or the French words "Réglementée par ~~Association canadienne des courtiers de fonds mutuels~~".

~~MFDA~~ CORPORATION LOGO ON ACCOUNT STATEMENTS AND ON THE MEMBER'S WEBSITE

Members must include the ~~MFDA~~ Corporation Logo on the front of each account statement that is sent to clients. Members must also include the ~~MFDA~~ Corporation Logo on the Member's website homepage. Where the Member's site or internet presence is part of a combined financial institution group website, the ~~MFDA L~~Corporation Logo must be included on the Member's main page.

In addition, the ~~MFDA~~ Corporation Logo must be followed by the web address of the official website of the ~~MFDA~~ Corporation, which is www.~~mfda.ca~~, on both the account statement and on the Member's website.

For the purposes of complying with Rule 2.13 and this ~~Policy~~Rule Members may determine the size of the ~~MFDA~~ Corporation Logo depending on what would reasonably be considered to be an appropriate size for the individual layout of the account statement or website. However, Members must ensure that the ~~MFDA~~ Corporation Logo is clearly visible and prominently included on the front of the account statement and on the Member's website.

Specifically, the ~~MFDA~~ Corporation Logo that Members are required to include on account statements and on their website is reproduced below:

~~Black and White (English and French)~~

Regulated by
Mutual Fund Dealers
Association of Canada

Réglementée par
Association canadienne
des courtiers de fonds m

~~Colour (English and French)~~

Formatted Table

Regulated by
Mutual Fund Dealers
Association of Canada

Réglementée par
Association canadienne
des courtiers de fonds

PROHIBITIONS ON USE OF THE ~~MFDA~~ Corporation LOGO

A ~~MFDA~~ Member will be prohibited from including the ~~MFDA~~ Corporation Logo on account statements and on its website upon suspension of the Member's membership in the ~~MFDA~~ Corporation or upon the termination of the Member's membership in the ~~MFDA~~ Corporation.

December 15, 2018

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(Member Name)

_____
(Date)

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C	Statement of early warning excess	Jan-2011
D	Statement of income and comprehensive income	Jan-2011
E	Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)	Jan-2011
F	Statement of changes in subordinated loans	Jan-2011
	Notes to the Form 1 financial statements	
PART II		
REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF CASH AND SECURITIES *[at audit date only]*		
SCHEDULE		
1	Analysis of securities owned and sold short at market value	Jan-2011
2	Analysis of clients' debit balances	Jan-2011
3	Current Income taxes	Jan-2011
4	Insurance	Jan-2011
5	Early warning tests	Jan-2011
6	Other supplementary information *[not required at audit date]*	Jan-2011

FORM 1 – GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

1. Each Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of ~~the Mutual Fund Dealers Association of Canada (~~the Corporation~~)~~.

   Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation. Each Member must complete and file all of these statements and schedules.

2. The following are Form 1 IFRS departures as prescribed by the Corporation:

	Prescribed IFRS departure
Trading balances	When reporting trading balances relating to Member and client securities and other investment transactions, the Corporation allows the netting of receivables from and payables to the same counterparty.
Preferred shares	Preferred shares issued by the Member and approved by the Corporation are classified as shareholders' capital.
Presentation	Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. In addition, specific balances may be classified or presented on Statements A, D and E in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements, should be followed in those instances where departures from IFRS presentation exists. Statements B, C and F are supplementary financial information, which are not statements contemplated under IFRS.
Separate financial statements on a non-consolidated basis	Consolidation of subsidiaries is not permitted for regulatory reporting purposes except for related companies that meet the definition of "related Member" in General ~~MFDA~~ By-law No. 1 and the Corporation has approved the consolidation. Because Statement D only reflects the operational results of the Member, a Member must not include the income (loss) of an investment accounted for by the equity method.
Statement of cash Flow	A statement of cash flow is not required as part of Form 1.
Valuation	Securities are to be valued and reported at "market value of securities".

3. The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.
Valuation of a Subsidiary	A Member must value subsidiaries at cost.

4. These statements and schedules should be read in conjunction with General By-Law No. 1, and the Rules of the Corporation~~'s Bylaws, Rules and Policies~~.

5. For purposes of these statements and schedules, the accounts of related companies that meet the definition of "related Member" in General ~~MFDA~~ By-law No. 1 may be consolidated.

6. For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.

7. Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.

8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.

9. Supporting details should be provided, as required, showing a breakdown of any significant amounts that have not been clearly described on the statements and schedules.

10. **Mandatory security counts.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.

11. **Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.

DEFINITIONS:

1. **"acceptable entity"** means:

(a) Acceptable institutions.

(b) Government of Canada, the Bank of Canada and Provincial Governments.

(c) Insurance companies licensed to do business in Canada or a province thereof.

(d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.

(e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.

(f) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.

(g) Corporations (other than Regulated Entities) with a minimum net worth of $75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.

(h) Members of the Corporation.

(i) Regulated entities.

2. **"acceptable institutions"** means:

(a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.

(b) Credit and central credit unions and regional caisses populaires.

3. **"acceptable securities locations"** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation ~~Bylaws~~, Rules ~~or Policies~~ of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be

delivered to the Member promptly on demand. The Corporation will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:

(a) Depositories

i.	Canada	CDS Clearing and Depository Services Inc.
ii.	United States	Depository Trust Company

(b) Government of Canada, the Bank of Canada and Provincial Governments.

(c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.

(d) Credit and central credit unions and regional caisses populaires.

(e) Insurance companies licensed to do business in Canada or a province thereof.

(f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

(g) Regulated entities.

4. **"regulated entities"** means those Dealer Members that are ~~Members~~ covered by the ~~Canadian Investor Protection Fund~~IPF or M~~M~~embers of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" under the Investment Dealer and Partially Consolidated Rules. ~~by the Investment Industry Regulatory Organization of Canada.~~

5. **"market value of a security "** means:

(a) For securities, precious metals bullion and commodity futures contracts quoted on an active market, the published price quotation using:

i. for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be.

ii. for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date.

iii. for all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate.

iv. for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.

v. for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date.

vi. for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (v) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.

vii. for money market repurchases with borrower call features, the borrower call price.

(b) Where a determination respecting market value is made pursuant to the provisions of 5(a)(i) – (vii), that determination must include any price adjustments considered by the Member to be necessary to accurately reflect the market value.

(c) Where a reliable price for the security, precious metals bullion or commodity futures contract cannot be determined:

i. the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly; or

ii. where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions; or

iii. where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate within that range, cost.

(d) Where a value cannot be reliably determined under subsections 5(a) and 5(c) above, no value shall be reported.

FORM 1 – CERTIFICATE OF PARTNERS OR DIRECTORS

_____
(Member Name)

I/We have examined the attached statements and schedules and certify that, to the best of my/our knowledge, they present fairly the financial position and capital of the Member at _____ (Member) and the results of operations for the period then ended, and are in agreement with the books of the Member.

I/We certify that the following information is true and correct to the best of my/our knowledge for the period from the last audit to the date of the attached statements which have been prepared in accordance with the current requirements of the Corporation:

ANSWERS

1. Do the attached statements fully disclose all assets and liabilities including the following:
   - (a) All future purchase and sales commitments? _____
   - (b) Writs issued against the Member or partners or any other litigation pending? _____
   - (c) Income tax arrears? _____
   - (d) Other contingent liabilities, guarantees, accommodation, endorsements or commitments affecting the financial position of the Member? _____
2. Does the Member promptly segregate clients' cash and securities in accordance with the Rules ~~and Policies~~? _____
3. Does the Member determine on a regular basis its segregation amount and act promptly to segregate assets as appropriate in accordance with the Rules ~~and Policies~~? _____
4. Does the Member carry insurance of the type and in the amount required by the Rules ~~and Policies~~? _____
5. Does the Member monitor on a regular basis its adherence to early warning requirements in accordance with the Rules ~~and Policies~~? _____
6. Does the Member perform regular reconciliations of its trust accounts in accordance with the Rules ~~and Policies~~? _____
7. Does the Member perform regular reconciliations of its transactions with fund company and other financial institution records in accordance with the Rules ~~and Policies~~? _____
8. Does the Member have adequate internal controls in accordance with the Rules ~~and Policies~~? _____
9. Does the Member maintain adequate books and records in accordance with the Rules ~~and Policies~~? _____

_____
[date]

Name and Title - Please print	**Signature**
_____	_____
_____	_____
_____	_____
_____	_____

CERTIFICATE OF PARTNERS OR DIRECTORS
NOTES AND INSTRUCTIONS

1. Details must be given for any "no" answers.

2. To be signed by two of either:

   (a) Ultimate Designated Person (UDP)
   (b) Chief Executive Officer
   (c) Chief Financial Officer
   (d) Chief Accountant
   (e) One Director or Partner not included in (a), (b), (c) or (d) above.

   Where there is only one individual that meets the qualifications of the positions listed above, this individual must sign the certificate.

3. Two copies with original signatures must be provided to the Corporation.

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND E

To: Corporation ~~Mutual Fund Dealers Association of Canada~~ and Corporation IPF ~~MFDA Investor Protection Corporation~~

Opinion

We have audited the Statements of Form 1 of _____ (the Member), which comprise:

Statement A - Statements of financial position as at
_____ and _____
(date) *(date)*
Statement D - Statements of income and comprehensive income for the years ended
_____ and _____
(date) *(date)*
Statement E - Statements of changes in capital for the year ended _____ and changes
(date)

in retained earnings (or undivided profits) for the years ended
_____ and _____
(date) *(date)*
and notes to the Statements, including a summary of significant accounting policies (collectively referred to as the Statements). In our opinion, the accompanying Statements present fairly, in all material respects, the financial position of the Member as at _____ and _____ , and the results of its operations for the years
(date) *(date)*

then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Corporation~~the Mutual Fund Dealers Association of Canada~~.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statements* section of our report. We are independent of the Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note _____ to the Statements which describes the basis of accounting.
(note)
The Statements are prepared to assist the Member in complying with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Corporation~~the Mutual Fund Dealers Association of Canada~~. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

[Optional wording to either be removed or customized by respective audit firms] Material Uncertainty related to Going Concern

We draw attention to Note _____ in the Statements which indicates that [insert key events and
(note)
conditions that resulted in the material uncertainty]. As stated in Note_____ in the Statements,
(note)
these events and conditions, along with other matters as set forth in Note _____in the Statements,
(note)

indicate that a material uncertainty exists that may cast significant doubt on the Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter - Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly, do not express an opinion on the schedule.

Other Matter – Restriction on Use [Optional wording to either be removed or customized by audit firms]

Our report is intended solely for the Member, the Corporation ~~the Mutual Fund Dealers Association of Canada~~ and the Corporation IPF~~MFDA Investor Protection Corporation~~ and should not be used by parties other than the Member, Corporation ~~the Mutual Fund Dealers Association of Canada~~ and the Corporation IPF~~MFDA Investor Protection Corporation~~.

Responsibilities of Management and Those Charged with Governance for the Statements

Management is responsible for the preparation and fair presentation of the Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Corporation ~~the Mutual Fund Dealers Association of Canada,~~ and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Member's financial reporting process.

Auditor's Responsibilities for the Audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Member to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Statements, including the disclosures, and whether the Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

_____
[Audit Firm]

_____
[Signature of the name of the audit firm]

_____
[Auditor address]

_____
[Date]

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, C AND F

To: Corporation ~~Mutual Fund Dealers Association of Canada~~ and Corporation ~~MFDA Investor Protection Corporation~~IPF

Opinion

We have audited the Statements of Form 1 of _____ (the Member),

which comprise:

Statement B - Statements of risk adjusted capital as at _____ and _____
(date) *(date)*

Statement C - Statement of early warning excess as at _____
(date)

Statement F – Statement of changes in subordinated loans for the year ended _____
(collectively referred to as the Statements). *(date)*

In our opinion, the accompanying Statement B as at _____ and _____,
(date) *(date)*

Statement C as at _____and Statement F for the year ended _____are prepared, in all material
(date) *(date)*

respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Corporation~~NewCo.the Mutual Fund Dealers Association of Canada~~.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statements* section of our report. We are independent of the Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note _____ to the Statements which describes the basis of accounting.
(note)

The Statements are prepared to assist the Member in complying with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by ~~NewCo~~ the Corporation.~~the Mutual Fund Dealers Association of Canada~~. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

[Optional wording to either be removed or customized by respective audit firms] Material Uncertainty related to Going Concern

We draw attention to Note _____ in the Statements which indicates that [insert key events and
(note)

conditions that resulted in the material uncertainty]. As stated in Note_____ in the Statements,
(note)

these events and conditions, along with other matters as set forth in Note _____in the Statements,
(note)

indicate that a material uncertainty exists that may cast significant doubt on the Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter - Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly, do not express an opinion on the schedule.

Other Matter – Restriction on Use [Optional wording to either be removed or customized by audit firms]

Our report is intended solely for the Member, Corporation the Mutual Fund Dealers Association of Canada and the Corporation IPF MFDA Investor Protection Corporation and should not be used by parties other than the Member, the Corporation. the Mutual Fund Dealers Association of Canada and the Corporation IPFMFDA Investor Protection Corporation.

Responsibilities of Management and Those Charged with Governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Corporation the Mutual Fund Dealers Association of Canada, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Member's financial reporting process.

Auditor's Responsibilities for the Audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

_____
[Audit Firm]

_____
[Signature of the name of the audit firm]

_____
[Auditor address]

_____
[Date]

FORM 1 – INDEPENDENT AUDITOR'S REPORTS
NOTES AND INSTRUCTIONS

A measure of uniformity in the form of the auditor's reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's reports shown above.

Any limitations in the scope of the audit must be discussed in advance with the Corporation. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor's reports must be discussed in advance with the Corporation.

Two copies with original signatures must be provided to the Corporation.

FORM 1, PART I – STATEMENT A

_____
(Member Name)

STATEMENT OF FINANCIAL POSITION

at _____

REFERENCE			NOTES	(CURRENT YEAR) C$	(PREVIOUS YEAR) C$
	LIQUID ASSETS:				
1.		Cash on deposit with acceptable institutions			
2.		Client funds held in trust with acceptable institutions			
3.	Sch.1	Securities owned at market value			
4.		Receivable from carrying dealer or mutual fund			
5.		Trading balances			
6.		TOTAL LIQUID ASSETS			
	OTHER ALLOWABLE ASSETS *[Receivables from Acceptable Entities]*:				
7.		Interest and dividends receivable			
8.	Sch.3	Current income tax assets			
9.		Recoverable and overpaid taxes			
10.		Other receivables *[provide details]*			
11.		TOTAL OTHER ALLOWABLE ASSETS			
12.		TOTAL ALLOWABLE ASSETS *[line 6 plus line 11]*			
	NON ALLOWABLE ASSETS:				
13.	Sch.2	Client debit balances			
14.		Deferred tax assets			
15.		Intangible assets			
16.		Property, plant and equipment			
17.		Finance lease assets			
18.		Due from related parties *[provide details]*			
19.		Investments in subsidiaries and affiliates			
20.		Other assets *[provide details]*			
21.		TOTAL NON ALLOWABLE ASSETS			
22.		TOTAL ASSETS *[line 12 plus line 21]*			

FORM 1, PART I – STATEMENT A (CONTINUED)

	REFERENCE		NOTES	(CURRENT YEAR) C$	(PREVIOUS YEAR) C$
	CURRENT LIABILITIES:				
23.		Overdrafts and loans			
24.	Sch.1	Securities sold short at market value			
25.		Trust liabilities			
26.		Trading balances			
27.		Provisions			
28.	Sch.3	Current income tax liabilities			
29.		Variable compensation payable			
30.		Bonuses payable			
31.		Accounts payable and accrued expenses			
32.		Other current liabilities *[provide details]*			
33.		TOTAL CURRENT LIABILITIES			
	NON-CURRENT LIABILITIES:				
34.		Provisions			
35.		Deferred tax liabilities			
36.		Other non-current liabilities *[provide details]*			
37.		TOTAL NON-CURRENT LIABILITIES			
	OTHER LIABILITIES				
38.		Finance leases and lease-related liabilities *[provide details]*			
39.		Due to related parties *[provide details]*			
40.	F-6	Subordinated loans			
41.		TOTAL OTHER LIABILITIES			
42		TOTAL LIABILITIES *[line 33 plus lines 37 plus 41]*			
	CAPITAL AND RESERVES:				
43.	Stmt. E	Issued capital			
44.	Stmt. E	Reserves			
45.	Stmt. E	Retained earnings or undivided profits			
46.		TOTAL CAPITAL			
47.		TOTAL LIABILITIES AND CAPITAL *[line 42 plus line 46]*			

FORM 1, PART I – STATEMENT A
NOTES AND INSTRUCTIONS

Accrual basis of accounting

Members are required to use the accrual basis of accounting.

Allowable assets are those assets which, due to their nature, location or source, are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Line 4 - In the case of the Mutual Fund Dealer – Dealing Representative's ~~salesperson's~~ portion of gross commissions or fees receivable, as recorded on lines 10 (Other receivables) and 20 (Other assets), to the extent that there is written documentation that the Member does not have a liability to pay the Mutual Fund Dealer – Dealing Representative's ~~salesperson's~~ commission until it is received, the Mutual Fund Dealer – Dealing Representative's ~~salesperson's~~ portion of the gross commission or fee receivable is an allowable asset.

Line 5 - Include amounts owed to the Member for the sale of nominee name client securities.

Line 8 - Include **only** overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.

Line 9 - Include GST and HST receivables, capital tax, Part IV tax, sales and property taxes.

Line 11 - Include **only** to extent receivable from Acceptable Entities (for definition, see General Notes and Definitions) but do not include subordinated loans receivable from other Members which should be shown on line18.

Line 15 - Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.

Line 17 - Assets arising from a finance lease (also known as a capitalized lease).

Line 18 - Receivables from related parties which are generated from trading activity can be reported as allowable assets if the criteria for such reporting is otherwise satisfied.

A Member must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.

Line 19 - Investments in subsidiaries and affiliates must be valued at cost.

Line 20 - Including but not limited to such items as:

- prepaid expenses
- commissions and other receivables from other than acceptable entities
- cash surrender value of life insurance
- advances to employees (gross)
- cash on deposit with non acceptable entities
- provincial contingency/fund deposits

Line 21 - Non-allowable assets mean those assets that do not qualify as allowable assets.

Line 26 - Includes amounts owed by the Member for the purchase of nominee name client securities.

Line 27 - Recognize a liability to cover specific expenditures relating to legal and constructive obligations. A Member cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.

Line 30 - Include discretionary bonuses payable and bonuses payable to shareholders.

Line 32 - Include all other current liabilities excluding those reported on lines 38, 39 and 40.

Line 36 - Include all other non-current liabilities excluding those reported on lines 38, 39 and 40.

Line 40 - Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the Corporation, obtained from a source approved by the Corporation, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.

A Member must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the Corporation are parties.

Line 44 - Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings. It also includes accumulated other comprehensive income (OCI).

Line 45 - Retained earnings represent the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits.

FORM 1, PART I – STATEMENT B

_____
(Member Name)

STATEMENT OF RISK ADJUSTED CAPITAL

at _____

	REFERENCE		NOTES	(CURRENT YEAR) C$	(PREVIOUS YEAR) C$
		LIQUID ASSETS:			
1.	A-12	Total Allowable Assets			
2.	A-33	**Deduct:** Total Current Liabilities			
3.		ALLOWABLE WORKING CAPITAL			
4.	A-39	**Deduct:** Due to related parties			
5.		ADJUSTED ALLOWABLE WORKING CAPITAL			
6.		**Deduct:** Minimum capital			
7.		SUBTOTAL			
8.	A-37	**Deduct:** 10% of_____ Non-current liabilities			
9.		SUBTOTAL			
		Deduct: Margin required:			
10.	Sch.1	Securities owned and sold short			
11.	Sch.4	Financial institution bond deductible *[greatest under any clause]*			
12.		Securities held at non-acceptable securities locations *[see note]*			
13.		Guarantees *[provide details]*			
14.		Unresolved differences in nominee name accounts			
15.		Unresolved differences in trust accounts			
16.		Other *[provide details]*			
17.		TOTAL MARGIN REQUIRED *[lines 10 through 16]*			
18.		RISK ADJUSTED CAPITAL *[line 9 minus line 17]*			

FORM 1, PART I – STATEMENT B
NOTES AND INSTRUCTIONS

Capital Adequacy

A MEMBER MUST HAVE AND MAINTAIN AT ALL TIMES RISK ADJUSTED CAPITAL IN AN AMOUNT NOT LESS THAN ZERO.

Line 4 - Due to related parties

For purposes of this capital calculation, all amounts owing to related parties must be reported as a deduction to risk adjusted capital.

Line 6 - Minimum capital Rule 3.1.1 requires the following minimum capital amounts:

Level 1 Member	$ 25,000
Level 2 Member	50,000
Level 3 Member	75,000
Level 4 Member	200,000

Notwithstanding the provisions of Rule 3.1.1, a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least $100,000.

Line 12 - Securities held at non- acceptable locations

100% of the market value of securities must be provided in the case where client or firm securities are held at locations which do not qualify as acceptable securities locations (see General Notes and Definitions). Securities held by an entity with which the Member has not entered into a written custodial agreement as required by the ~~By-laws and~~ Rules of the Corporation shall be considered as being held at non-acceptable securities locations.

Line 13 - Guarantees

If the Member is guaranteeing the liability of another party, the total amount of the guarantee must be provided for in computing Risk Adjusted Capital.

The Member should maintain and retain the details of the margin calculations for guarantees for review by the Corporation.

Lines 14 and 15 - Unresolved differences

Items are considered unresolved unless a journal entry to resolve the difference has been processed as of the Due Date of the Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of the Form 1.

Margin must be provided for adverse unresolved differences in nominee name accounts in an amount equal to the market value of the securities short plus the applicable margin rates related to the security. If the deficiency has not been resolved within thirty days of being discovered, the Member shall immediately purchase the securities that are short.
For nominee name accounts, where a mutual fund company or financial institution does not provide a monthly statement or electronic file confirming all of the Member firm's positions, the Member shall provide margin equal to 100% of the market value of such mutual funds and other investment products held on behalf of clients.

All reconciliations must be properly documented and made available for review by Corporation staff and the Member's auditor.

Line 16 - Other

This item should include all margin requirements not mentioned above as outlined in the ~~By-laws and~~ Rules of the Corporation.

FORM 1, PART I – STATEMENT C

_____
(Member Name)

STATEMENT OF EARLY WARNING EXCESS

at_____

REFERENCE			(CURRENT YEAR) C$
1.	B-18	RISK ADJUSTED CAPITAL	
		LIQUIDITY ITEMS	
		DEDUCT:	
2.	A-11	Total other allowable assets	
		ADD:	
3.	B-8	10% of Non-current liabilities	
4.		EARLY WARNING EXCESS	

FORM 1, PART I – STATEMENT C
NOTES AND INSTRUCTIONS

The early warning system is designed to provide advance warning of a Member encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage Members to build a capital cushion.

Line 2 - Other allowable assets are deducted from RAC because they are illiquid or the receipt is either out of the firm's control or contingent.

Line 3 - Non-current liabilities are added back to RAC as they are not current obligations of the firm and can be used as financing.

FORM 1, PART I – STATEMENT D

_____
(Member Name)

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE PERIOD ENDED _____

		NOTES	(CURRENT YEAR/MONTH) C$	(PREVIOUS YEAR/MONTH) C$
COMMISSION REVENUE				
1.	Mutual Funds			
2.	Segregated Funds			
3.	Deposit Instruments			
4.	Limited Partnerships			
5.	Other securities *[provide details]*			
6.	Insurance			
OTHER REVENUE				
7.	Interest			
8.	Fees from clients			
9.	Management fees			
10.	Referral fees			
11.	Realized/unrealized gain (loss) on marketable securities			
12.	Other *[provide details]*			
13.	TOTAL REVENUE			
EXPENSES				
14.	Variable compensation			
15.	Commissions and fees paid to third parties			
16.	Interest expense on subordinated debt			
17.	Bad debt expense			
18.	Financing costs			
19.	Operating expenses			
20.	Unusual items *[provide details]*			
21.	Profit (loss) for the year from discontinued operations			
22.	Profit (loss) for Early Warning test			
23.	Income – Asset revaluation			
24.	Expense – Asset revaluation			
25.	Interest expense on internal subordinated debt			
26.	Bonuses			
27.	**Net income (loss) before income tax**			
28. S-3(5)	Income tax expense (recovery)			
29.	PROFIT (LOSS) FOR PERIOD			

OTHER COMPREHENSIVE INCOME

30.	Gain (loss) arising on revaluation of properties		To E5a	
31.	Actuarial gain (loss) on defined benefit pension plans		To E5b	
32.	Other comprehensive income for the period, net of tax *[Lines 30 plus 31]*			
33.	**Total comprehensive income for the period** *[Lines 29 plus 32]*			

FORM 1, PART I – STATEMENT D
NOTES AND INSTRUCTIONS

Comprehensive Income

Comprehensive income represents changes in equity during a period, including profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, there are two acceptable sources of other comprehensive income (OCI):

- the use of the revaluation model for property, plant and equipment (PPE) and intangible assets; and
- actuarial gain (loss) on defined benefit pension plans.

Lines

1-12 Report all gross commission revenue earned in the appropriate lines.
Report all other revenue earned on a gross basis.
Commission paid to salespersons must be reported on line 14 (Expenses – Variable compensation)
Payouts to other parties must be reported on line 15 (Expenses – Commissions and fees paid to third parties).

1 Include all gross commissions and trailer fees earned on mutual fund transactions.

7 Include all interest revenue. Interest revenue earned by the Member from holding client cash balances should be reported on this line.

The related interest cost paid to clients should be reported on line 18 (Expenses – Financing costs).

8 Include portfolio service fees, RRSP fees and any charges to clients that are not related to commissions or interest.

9 Include fund management fees and consulting fees charged to parties other than clients.

10 Include all fees earned as a result of referring clients to another entity for products or services.

11 Include all trading profits or losses from principal trading activities and adjustment of marketable securities to market value.

12 Include foreign exchange profits or losses and all other revenue not reported above.

14 Include commissions, bonuses and other variable compensation of a contractual nature. Examples would encompass commission payouts to Mutual Fund Dealer – Dealing Representatives~~salespersons~~. All contractual bonuses should be accrued monthly. Discretionary bonuses should be reported separately on line 26 (Expenses – Bonuses).

15 Include payouts to other parties.

16 Include all interest on external subordinated debt, as well as non-discretionary contractual interest on internal subordinated debt.

18 Include the interest cost paid to clients.

19 Include all operating expenses except those mentioned elsewhere.

20 Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.
Discontinued operations, such as a branch closure, should be reported separately on line 21 (Profit (loss) for the year

from discontinued operations).

21 A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, a branch closure. The profit (loss) on discontinued operations for the year is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recover) on Statement D line 28.

22 This is the profit (loss) number used for the Early Warning profitability tests.

23 When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.

24 When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.

25 Include interest expense on subordinated debt with related parties for which the interest charges can be waived if required.

26 This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. These bonuses are in contrast to those reported on Line 14 (Expenses – Variable compensation).

28 Includes only income taxes. Realty and capital taxes should be included on line 19 (Expenses – Operating expenses). Also include the tax component relating to the profit (loss) on discontinued operations for the year.

30 When a Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.

31 When a Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.

FORM 1, PART I – STATEMENT E

_____
(Member Name)

STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR UNDIVIDED PROFITS (PARTNERSHIPS)
FOR THE PERIOD ENDED _____

PART A. CHANGES IN ISSUED CAPITAL

		Notes	Share capital or Partnership capital	Share premium	Issued capital
			[a]	**[b]**	**[c] = [a] + [b]**
			C$	**C$**	**C$**
1	Beginning balance	–			
2	Increases (decreases) during the period *[provide details]*				
	(a)				
	(b)				
	(c)				
3	Ending balance	–			
					A 43

PART B. CHANGES IN RESERVES

		Notes	General	Properties revaluation	Employee benefits	Total reserves
			[a]	**[b]**	**[c]**	**[d] = [a] + [b] + [c]**
			C$	**C$**	**C$**	**C$**
4	Beginning balance	–				
5	Changes during the period					
	(a) Other comprehensive income for the period – properties revaluation (From D 30)		N/A		N/A	
	(b) Other comprehensive income for the period – actuarial gain (loss) on defined benefit pension plans (From D 31)		N/A	N/A		
	(c) Recognition of share-based payments (From D 19)		N/A	N/A		
	(d) Transfer from/to retained earnings (From/to E 12)			N/A	N/A	
	(e) Other *[provide details]*					
6	Ending balance	–				
						A 44

PART C. CHANGES IN RETAINED EARNINGS

		Notes	**Retained earnings (current year/month)**	**Retained earnings (previous year/month)**
			C$	**C$**
7	Beginning balance	–		
8	Effect of change in accounting policy *[provide details]*			
	(a)		N/A	
	(b)		N/A	
9	As restated	–	N/A	
10	Payment of dividends or partners drawings			
11	Profit or loss for the period (From D 29)	–		
12	Other direct charges or credits to retained earnings *[provide details]*			
	(a)			
	(b)			
	(c)			
13	Ending balance	–		
			A 45	

FORM 1, PART I – STATEMENT E
NOTES AND INSTRUCTIONS

PART A. CHANGES IN ISSUED CAPITAL

Share premium

When the Member sells its shares (initial issuance or from treasury), share premium is the excess amount received by the Member over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

PART B. CHANGES IN GENERAL RESERVE

General reserve

A Member may want to transfer from retained earnings. The creation of a general reserve gives the Member an added measure of protection.

Reserve – Employee benefits

When a Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a Member has stock option or share awards granted to its employees by issuing new shares, the Member recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in the reserve account.

Reserve – Properties revaluation

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a Member will account for the initial increase in value as other comprehensive income and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

PART C. CHANGES IN RETAINED EARNINGS

Changes in accounting policy and retroactive adjustment of prior year's retained earnings

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings.

The beginning balance of the current period must be the ending balance of the prior period.

FORM 1, PART I – STATEMENT F

_____
(Member Name)

STATEMENT OF CHANGES IN SUBORDINATED LOANS
FOR THE PERIOD ENDED _____

		Notes	C$
1.	Balance at last period-end		
2.	Increases during period		
	[give name of lender and date of increase]		
	(a)		
	(b)		
	(c)		
	(d)		
	(e)		
	(f)		
3.	Subtotal		
4.	Decreases during period		
	[give name of lender and date of decrease]		
	(a)		
	(b)		
	(c)		
	(d)		
	(e)		
	(f)		
5.	Subtotal		
6.	Present subordinated loans		

FORM 1, PART I – STATEMENT F
NOTES AND INSTRUCTIONS

1. **At the annual audit date only**, provide an attachment to Statement F showing the amount and the name of the lender for each subordinated loan outstanding.
2. **"subordinated loans"** means approved loans, pursuant to an agreement in writing in the form prescribed by the Corporation, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.

FORM 1 – PART I – NOTES

_____
(Member Name)

NOTES TO THE FORM 1 FINANCIAL STATEMENTS

at _____

FORM 1, PART II
REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF CASH AND SECURITIES

To: ~~The Mutual Fund Dealers Association of Canada (~~the Corporation~~)~~ and the Corporation ~~MFDA Investor Protection Corporation~~IPF:

We have performed the following procedures in connection with the regulatory requirements for _____
(Member firm)

to maintain minimum insurance and segregate client cash and securities as outlined in the ~~By-laws,~~ Rules~~, and Policies~~ of the Corporation. Compliance with the Corporation ~~By-laws,~~ Rules~~, and Policies~~ with respect to insurance and the segregation of client cash and securities is the responsibility of the management of the Member firm. Our responsibility is to perform the procedures requested by you.

1. We have read the Member firm's written internal control policies and procedures with respect to maintaining insurance coverage and segregation of client cash and securities to determine that such policies and procedures meet the minimum required, as prescribed by the Rules ~~and Policies~~ of the Corporation in regards to establishing and maintaining adequate internal controls.

2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to insurance and segregation of client cash and securities meet the minimum required, as prescribed by the Rules ~~Policies~~ of the Corporation in regards to establishing and maintaining adequate internal controls and that they have been implemented.

3. We read the Financial Institution Bond Form (the "FIB") insurance policy(s) to determine that the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the ~~By-laws,~~ Rules ~~and Policies~~ of the Corporation.

4. We requested and obtained confirmation from the Member firm's Insurance Broker(s) as at _____ 20 _____
(period end date)

   as to the FIB coverage maintained with the Insurance Underwriter(s) including:

   (a) clauses
   (b) aggregate and single loss limits
   (c) deductible amounts
   (d) name of insurer and insured
   (e) claims made on the policy since last audit
   (f) details of losses/claims outstanding

5. We traced the total client cash and securities held by the Member to the Member's books and records as at the audit date to check that the compilation of the total client cash and securities held by the Member is in accordance with the Notes and Instructions to Schedule 4 of Form 1.

6. We obtained a listing of all securities segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Securities Locations" as defined in the General Notes and Definitions to Form 1.

7. We obtained a listing of all cash segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Institutions" as defined in the General Notes and Definitions of Form 1 and that each account was designated as "in trust" and was interest bearing.

These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Member firm's insurance coverage, segregation of client cash and securities, or its internal control policies and procedures.

This report is for use solely by the Corporation and the~~-~~ Corporation IPF~~NewCo. MFDA Investor Protection Corporation~~ to assist in their assessment of the Member firm's compliance with the requirements regarding maintaining minimum insurance and segregating client cash and securities as outlined in the ~~Bylaws,~~ Rules ~~and Policies~~ of the Corporation and not for any other purpose.

(auditing firm)	*(date)*
(signature)	*(place of issue)*

FORM 1, PART II – SCHEDULE 1

DATE:_____

_____
(Member Name)

ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE

Category	Notes	Market Value Long C$	Market Value Short C$	Margin required C$
1. Money market				
Accrued interest				NIL
TOTAL MONEY MARKET				
2. Money market mutual funds			NIL	
3. Mutual funds (other than money market mutual funds)			NIL	
4. Equities				
Accrued interest on convertible debentures				NIL
TOTAL EQUITIES				
5. Debt				
Accrued interest				NIL
TOTAL DEBT				
6. Other *[provide details]*				
Accrued interest				NIL
TOTAL OTHER				
7. TOTAL				
		A-3	A-24	B-10

FORM 1, PART II – SCHEDULE 1
NOTES AND INSTRUCTIONS

1. All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined below:

(a) Bonds, Debentures, Treasury Bills and Notes

(i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America and of any other national foreign government (provided such foreign government securities are currently rated Aaa or AAA by Moody's Investors Services Inc. or Standard & Poor's Corporation, respectively), maturing (or called for redemption):

within 1 year	1% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	5% of market value

(ii) Bonds, debentures, treasury bills and other securities of or guaranteed by any province of Canada and obligations of the International Bank for Reconstruction and Development, maturing (or called for redemption):

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	5% of market value

(iii) Bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or the United Kingdom maturing:

within 1 year	3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	5% of market value

(iv) Other non-commercial bonds and debentures (not in default):

10% of market value

(v) All other bonds, debentures and notes (not in default):

within 1 year	3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	10% of market value

(b) Bank Paper

Deposit certificates, promissory notes or debentures issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) maturing:

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	10% of market value

(c) Mutual Funds

Securities of mutual funds qualified by prospectus for sale in any province of Canada shall be margined at the following rates:

Money Market Funds (as defined in NI81-102) - 5% of market value.

All Other Mutual Funds - 50% of market value.

(d) Stocks

On securities (other than bonds and debentures) including rights and warrants listed on any recognized stock exchange in Canada or the United States:

Long Positions - Margin Required

Securities selling at $2.00 or more - 50% of market value

Securities selling at $1.75 to $1.99 - 60% of market value

Securities selling at $1.50 to $1.74 - 80% of market value

Securities selling under $1.50 - 100% of market value

Short Positions - Credit Required

Securities selling at $2.00 or more - 150% of market value

Securities selling at $1.50 to $1.99 - $3.00 per share

Securities selling at $0.25 to $1.49 - 200% of market value

Securities selling at less than $0.25 - market value plus $0.25 per share

(e) FOR ALL OTHER SECURITIES - 100%.

2. Schedule 1 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long market value, total short market value and total margin required as indicated.

3. The Examiners and/or Auditors of the Corporation may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

Line 1 - Money market shall include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

FORM 1, PART II – SCHEDULE 2

DATE:_____

_____
(Member Name)

ANALYSIS OF CLIENTS' DEBIT BALANCES

Line		Advanced Redemption Proceeds Receivable	Other Client Receivables	Client Debit Balances
		[a]	[b]	[c] = [a] + [b]
		C$	C$	C$
1.	Non – registered accounts			
2	RRSP and other registered accounts			
3	TOTAL			
				A-13

SUPPLEMENTARY DISCLOSURE:

NAME OF RRSP TRUSTEE(S)

1. _____

2. _____

3. _____

4. _____

FORM 1, PART II – SCHEDULE 2
NOTES AND INSTRUCTIONS

1. Rule 3.2.1 prohibits Members from lending or extending credit to a client unless the Member is in compliance with Rule 3.2.3 which provides for the advancement of redemption proceeds.

Supplementary Disclosure:
The name of the RRSP trustee(s) used by the Member must be provided. The RRSP or other similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).

FORM 1, PART II – SCHEDULE 3

DATE:_____

_____
(Member Name)

CURRENT INCOME TAXES

A. INCOME TAX LIABILITY (ASSET)	**C$**	**C$**
1. Balance payable (recoverable) at last period-end		----------
2. (a) Payments (made) or received relating to above balance	----------	
(b) Adjustments, including reassessments, relating to prior periods *[provide details if significant]*	----------	
3. Total adjustment to prior periods' payable (recoverable) taxes during current period		_____
4. Subtotal *[add or subtract line 3 from line 1]*		_____
5. Income tax expense (recovery)	---------- D-28	
6. less: Current installments	----------	
7. Other adjustments *[provide details if significant]*	----------	
8. Total adjustment for current year's tax liabilities (assets)		_____
9. TOTAL LIABILITY (ASSET) *[add or subtract line 8 from line 4]*		_____ A-8 -- if asset A-28 -- if liability

FORM 1, PART II – SCHEDULE 4

DATE: _____

_____
(Member Name)

INSURANCE

PART A. FINANCIAL INSTITUTION BOND (FIB) CLAUSES (A) TO (E) **C$**

1. Minimum coverage required for each clause:

LEVEL 1, 2 OR 3 DEALERS

(a) Lesser of $50,000 per Mutual Fund Dealer – Dealing Representative ~~Approved Person~~ or $200,000 _ _ _ _

_ _ _

(b) Allowable assets (A-12) $_____ x 1% _ _ _ _ _ _ _

Greater of (a) and (b) above _____

The actual coverage required for each clause is the greater of (a)and (b) above to a maximum requirement of $25,000,000.

LEVEL 4 DEALERS

(a) Minimum coverage of $500,000

(b) Total client cash and securities held by the Member $_____ x 1% _ _ _ _ _ _ _

(c) Allowable assets (A-12) $_____ x 1% _ _ _ _ _ _ _

Greater of (a), (b) and (c) above _____

The actual coverage required for each clause is the greater of (a), (b) and (c) above to a maximum requirement of $25,000,000.

2. Coverage maintained per FIB _ _ _ _ _ _ _ *[Notes 3&7]*

3. Excess / (Deficiency) in coverage _____ *[Note 4]*

4. Amount deductible under FIB (*greatest under any clause)* _____ *[Note 5]*

B-11

PART B. REGISTERED MAIL INSURANCE

1. Coverage per mail policy _____ *[Note 6]*

PART C. FIB AND REGISTERED MAIL POLICY INFORMATION *[Note 8]*

Insurance Company	Name of the Insured	FIB/ Registered Mail	Expiry Date	Coverage	Premium

FORM 1, PART II – SCHEDULE 4

_____
(Member Name)

INSURANCE

PART D. LOSSES AND CLAIMS *[Note 9]*

Date of Loss	Date of Discovery	Amount of Loss	Deductible Applying to Loss	Description	Claim Made?	Settlement	Date Settled

FORM 1, PART II – SCHEDULE 4
NOTES AND INSTRUCTIONS

1. Member firms must maintain minimum insurance in type and amounts as outlined in the ~~By-laws,~~ Rules ~~and Policies~~ of the Corporation.

2. Schedule 4 must be completed at the audit date.

3. The amounts of insurance required to be maintained by a Member firm shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement.

   For Financial Institution Bond policies containing an "aggregate limit" coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

   Cash and securities held by a Member in its capacity as agent for the trustee must be included in the determination of total client cash and securities held by the Member.

4. The Certificate of Partners or Directors contains a question pertaining to the adequacy of insurance coverage. The Auditors' Report requires the auditor to state that the question has been fairly answered. The Corporation Rules also state: "Should there be insufficient coverage, firms shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10% of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaire and annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the Corporation."

5. A Financial Institution Bond maintained pursuant to the ~~MFDA~~ Rules of the Corporation may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the firm's margin requirement is increased by the amount of the deductible.

6. Every Member firm shall effect and keep in force Mail Insurance against loss arising by reason of any outgoing shipments of money, securities, or other property negotiable or non-negotiable, by first-class mail, registered mail, registered air mail, express or air express, such insurance to provide at least 100% coverage.

7. The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 4, line 2).

8. List all Financial Institution Bond and Registered Mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.

9. List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the "Amount of Loss" column if the amount of the loss is estimated or unknown as at the reporting date.

   Losses should continue to be reported on Schedule 4 Part D until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

   At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

FORM 1, PART II – SCHEDULE 5

DATE: _____

_____
(Member Name)

EARLY WARNING TESTS

		C$	Early Warning
A. CAPITAL DEFICIENCY			
B-18	**Is RAC less than 0?**		_____ **YES/NO**
B. LIQUIDITY TEST			
C-4	**Is Early Warning Excess less than 0?**		_____ **YES/NO**
C. PROFITABILITY TEST *[note 3]*			
	1. Loss for current quarter	==========	
B-18	2. RAC *[at questionnaire date]*	==========	
	Is line 2 less than line 1?		_____ **YES/NO**
D. FREQUENCY PENALTY			
	Has the Member triggered Early Warning more than 2 times in the past 12 months?		_____ **YES/NO**

FORM 1, PART II – SCHEDULE 5
NOTES AND INSTRUCTIONS

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a firm heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate Early Warning has been triggered.

2. The profit or loss figures to be used are before asset revaluation income and expense, bonuses, and income tax expense [Statement D, line 22 – Profit (loss) for Early Warning test]. Note that the "current quarter" figure must also reflect any audit adjustments made subsequent to the filing of the monthly FQR.

3. If the current quarter is profitable, enter a "No" answer for Part C.

FORM 1, PART II – SCHEDULE 6

DATE: _____

_____
(Member Name)

OTHER SUPPLEMENTARY INFORMATION

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1. Number of Mutual Fund Dealer – Dealing Representatives ~~salespersons~~

   (a) Registered only in Quebec…….____

   (b) Registered outside Quebec…… ____

   Total……____

2. Assets Under Administration at statement date…… ____ **C$**

FORM 1, PART II – SCHEDULE 6
NOTES AND INSTRUCTIONS

1. For individuals licensed in Quebec and also licensed in any other province, report on (b).

2. Assets under Administration means the market value of all mutual funds reflected in the client accounts (nominee and client name) of a Member in all provinces of Canada, excluding Quebec.

UMIR Transitional Amendments

PART 1 – DEFINITIONS AND INTERPRETATION

1.1 Definitions

…

"**Acceptable Foreign Trade Reporting Facility**" means a trade reporting facility or similar facility outside Canada:

(a) on which the reporting of trades is monitored for compliance with regulatory requirements at the time of reporting by a self-regulatory organization that is a member of the International Organization of Securities Commissions;

(b) that displays and provides timely information of the price, volume and security identifier of each trade at the time of the reporting of the trade; and

Included on a list of acceptable foreign trade reporting facilities published on the ~~IIROC~~ Corporation website.

…

"marketplace" has the same meaning as set out in section 1.1 of ~~IIROC~~ Corporation By-la~~O~~w No. 1

…

"order execution service" means a service that meets the requirements, from timeto time, under Part D of ~~IIROC~~ Corporation Rule 3200 – *Order Execution Only Accounts*

…

"UMIR" means those Rules adopted by the ~~Investment Industry Regulatory Organizationof Canada~~ Corporation and designated by the ~~Investment Industry Regulatory Organization of Canada~~ Corporation as the Universal Market Integrity Rules as amended, supplemented and in effect from time to time.

6.2 Designations and Identifiers

(1) Each order entered on a marketplace shall contain:

(a) the identifier of:

(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,

(ii) the marketplace on which the order is entered as assigned to themarketplace in accordance with Rule 10.15,

(iii) the Participant for or on behalf of whom the order is entered, if the orderis a jitney order,

(iv) the client for or on behalf of whom the order is entered:

1. in the form of a Legal Entity Identifier for:
   (a) orders entered using direct electronic access
   (b) orders entered using a routing arrangement
   (c) an identified order execution only client that is eligible to receive a Legal Entity Identifier under the standards set by the Global LegalEntity Identifier System
   (d) orders for accounts that are supervised under Part D of ~~IIROC~~ Corporation Rule 3900 - Supervision of institutional client accounts
2. in the form of an account number for all other client orders not includedunder UMIR 6.2(1)(a)(iv)(1)

…

POLICY 6.4 – Trades to be on a Marketplace

Part 5 – Application of UMIR to Orders Not Entered on a Marketplace

Under Rule 6.4, a Participant, when acting as principal or agent, may not trade nor participate in a trade in a security by means other than the entry of an order on a marketplace except in accordance with an exemption specifically enumerated within Rule 6.4. For the purposes of UMIR, a "marketplace" is defined as an Exchange, QTRS or an ATS and a "Participant" is defined essentially as a dealer registered in accordance with securities legislation of any jurisdiction and who is a member of an Exchange, a user of a QTRS or a subscriber to an ATS. If a person is a Participant, certain provisions of UMIR will apply to every order handled by that Participant even if the order is entered or executed on a marketplace that has not adopted UMIR as its market integrity rules or if the order is executed over-the-counter. In particular, thefollowing provisions of UMIR and the IIROC Rules will apply to an order handled by a Participant notwithstanding that the order is not entered on a marketplace that has adopted UMIR:

- Rule 4.1 prohibits a Participant from frontrunning certain client orders;
- Part C of ~~IIROC~~ Corporation Rule 3100 - Best Execution Of Client Orders with respect to the "bestexecution obligation" of a client order;
- Rule 8.1 governing client-principal trading; and
- Rule 9.1 governing regulatory halts, delays and suspensions of trading.

In accordance with Rule 11.9, UMIR will not apply to an order that is entered or executed on a marketplace in accordance with the Marketplace Rules of that marketplace as adopted in accordance with Part 7 of the Trading Rules or if the order is entered and executed on a marketplace or otherwise in accordance with the rules of an applicable regulation services provider or in accordance with the terms of an exemption from the application of the Trading Rules.

…

POLICY 7.1 – Trading Supervision Obligations

Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace

Each Participant must develop, implement and maintain supervision and compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements. Participants must identify any high-risk areas and ensure that their policies and procedures are adequately designed to address these heightened risks.

In developing supervision systems, Participants must identify any exception reports, trading data and any other relevant documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

Each Participant must develop written policies and procedures in relation to all Requirements that apply to their business activities. A Participant's supervision system must at a minimum include the regular review of compliance with respect to the following provisions for trading on a marketplace where applicable to their lines of business:

- Audit Trail requirements (Rule 10.11)
- Electronic Access to Marketplaces (Rule 7.1)
- Specific Unacceptable Activities (Rule 2.1)
- Manipulative and Deceptive Activities (Rule 2.2)
- Trading in restricted securities (Rule 7.7)
- Trading of grey list securities (Rule 2.2)
- Disclosure requirements (Rule 10.1)
- Frontrunning (Rule 4.1)
- Client/Principal Trading (Rule 8.1)
- Client Priority (Rule 5.3)
- Best Execution (Part C of ~~IIROC~~ Corporation Rule 3100 - Best Execution of Client Orders)
- Order Exposure requirements (Rule 6.3)
- Time synchronization requirements (Rule 10.14).

…

Part 4 – Specific Procedures Respecting Client Priority

…

The purpose of the Participant's compliance review is to ensure that inventory or non- client orders are not knowingly traded ahead of client orders. This would occur if a client order is

withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the client. Withholding an order for normal review and order handling is allowed under Rule 5.3 and Part C of ~~IIROC~~ Corporation Rule 3100 - Best Execution of Client Orders, as this is done to ensure that the client gets a good execution. To ensure that a supervision system is effective it must address potential problem situations where trading opportunities may be taken away from clients.

Part 13– Specific Provisions Respecting Client Disclosures

Each Participant must develop, implement and maintain a supervision system to verify that appropriate trade disclosures are made on client confirmations. To comply with ~~IIROC~~ Corporation rules, such disclosures must include:

…

POLICY 8.1 – Client-Principal Trading

Part 1 - General Requirements

Rule 8.1 governs client-principal trades. It provides that, for trades of 50 standard trading units or less, a Participant trading with one of its clients as principal must give the client a better price than the client could obtain on a marketplace. A Participant must take reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market. If the security is traded on more than one marketplace, the client must receive, when the Participant is buying, a higher price than the best bid price, and, if the Participant is selling, the client must pay a lower price than the best ask price.

For client-principal trades greater than 50 standard trading units, the Participant may do the trade provided the client could not obtain a better price on a marketplace in accordance with its best execution obligation under Part C of ~~IIROC~~ Corporation Rule 3100 - Best Execution of Client Orders. The Participant must take reasonable steps to ensure that the best price is obtained and the price to the client is justified by the condition of the market.

POLICY 10.1 – COMPLIANCE REQUIREMENT

Part 1 – Monitoring for Compliance

Rule 10.1 requires each Participant and Access Person to comply with applicable Requirements. The term "Requirements" is defined as meaning:

- UMIR;
- the Policies;
- the Trading Rules;
- the Marketplace Rules;
- any direction, order or decision of the Market Regulator or a Market Integrity Official; and

- securities legislation,

as amended, supplemented and in effect from time to time.

The Market Regulator will monitor the activities of Subject Persons for compliance with each aspect of the definition of Requirements and use the powers under ~~Consolidated~~ Corporation Rule 8100 to conduct any enforcement investigation into possible non-compliance. If the Subject Person has not complied with:

- UMIR, the Policies or any direction, order or decision of the Market Regulator or a Market Integrity Official, the Market Regulator may undertake a disciplinary proceeding pursuant to ~~Consolidated~~ Corporation Rule 8200 or Rule 10.5 with respect to temporary restriction of access;
- the Trading Rules or securities legislation, the Market Regulator may, pursuant to the exchange of information provided for under Rule 10.13, refer the matter to the applicable securities regulatory authority to be dealt with in accordance with applicable securities legislation; and
- Marketplace Rules, the Market Regulator may undertake a disciplinary proceeding pursuant to ~~Consolidated Enforcement~~ Corporation Rule 8200 or Rule 10.5 with respect to temporaryrestriction of access, if the marketplace has retained the Market Regulator to conduct disciplinary proceedings on behalf of the marketplace in accordance with an agreement with the Market Regulator contemplated by Part 7 of the Trading Rules, otherwise the Market Regulator may refer the matter to the marketplace to be dealt with in accordance with the Marketplaces Rules of that marketplace.

10.4 Suspension or Restriction of Access

(1) If the Market Regulator has determined that a Subject Person, other than a marketplace for which the Market Regulator is or was the regulation services provider, has engaged in, or may engage in, any course of conduct that is or may be a contravention of a Requirement, the Market Regulator may, if the Market Regulator considers it is necessary for the protection of the public interest by an interim order without notice or hearing, order the restriction or suspension of access to the marketplace upon such terms and conditions, if any, considered appropriate provided such interim order shall expire 15 days after the date onwhich the interim order is made unless:

(a) a hearing is commenced pursuant to Corporation Rule 8200 (Enforcement Proceedings)within that period of time to confirm or set aside the interim order;

(b) the person against which the interim order is made consents to an extensionof the interim order until a hearing of the matter is held; or

(c) an applicable securities regulatory authority directs that the interim order be rescinded or extended.

10.15 Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons

(1) An officer, director, partner or employee of a Participant shall forthwith report to their supervisor or the compliance department of the Participant upon becoming aware of activity in a principal, non-client or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:

(a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities;
(b) Rule 2.2 respecting manipulative and deceptive activities;
(c) Rule 2.3 respecting improper orders and trades;
(d) Rule 4.1 respecting frontrunning;
(e) Part C of ~~IIROC~~ Corporation Rule 3100 - Best Execution of Client Orders respecting bestexecution of client orders;
(f) Rule 5.3 respecting client priority;
(g) Rule 6.4 respecting trades to be on a marketplace; and
(h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection.

New SRO Investor Advisory Panel / Terms of Reference

Article 1 – Mandate

The New SRO Investor Advisory Panel (IAP) is an independent, voluntary, advisory panel to New SRO staff. The mandate of the IAP is to advise the New SRO on regulatory issues and other matters of public interest in order to assist the New SRO in the effective fulfillment of its public interest mandate and to convey issues of concern to investors for consideration by the New SRO. The mandate of the IAP includes providing input and advice on investor protection and access to advice initiatives with a view to addressing gaps relating to under-served investors and promoting diversity, inclusiveness and equity.

The IAP will provide input to the New SRO during the early stages of development of annual priorities, strategic plans, policies, rules, discussion papers and other regulatory initiatives. The IAP may advise and comment in writing on such policy, rules proposals, discussion papers or other regulatory initiatives of the New SRO that are published for comment and potentially of other organizations as appropriate and relevant to the New SRO mandate. The IAP shall endeavour to maintain consistent dialogue with New SRO staff carrying out key operational and regulatory functions in order to further inform IAP member deliberations and enhance the advice the IAP provides to the New SRO.

The IAP may raise current and emerging policy issues to New SRO that it identifies based on consultations or IAP members' opinions as experts in the subject matter of the issue, and comment on the potential implications for investors posed by those issues.

The IAP may engage in independent research projects as needed to assist the New SRO in the fulfillment of its public interest mandate.

Article 2 – Membership

2.1 Selection. Members will be selected through a public application process administered by New SRO staff. Membership applications will be reviewed by a nominating committee comprised of members of the New SRO's Governance Committee and Executive Management. The decision on selection of members will be made by the New SRO's Governance committee[1].

In selecting the membership, consideration will be given to the candidate's relevant expertise (as discussed below) and the desire to achieve a membership with diverse experiences, perspectives, backgrounds, knowledge and representation from across Canada.

Applicants shall disclose any conflict of interest between the private interests of the applicant and the potential future responsibilities of the applicant as an IAP member in their application for membership, consistent with the requirements of Article 4.4.

2.2 Composition. IAP will consist of a minimum of five (5) and a maximum of eleven (11) members.

2.3 Experience. Membership will consist of individuals with experience on matters of investor protection, concerns, issues or rights. Membership should consist of individuals with varied expertise taking into

[1] The New SRO Governance Committee members are all independent directors.

consideration diversity and geographic location to ensure broad and diverse representation of investors' views. Areas of expertise include:

- Investor education
- Consumer protection and outreach
- Seniors and/or vulnerable investor issues
- Younger and first-time investor issues
- Issues relating to under-served investors and communities
- Specific business models and products
- Professional regulation
- Government public policy
- Financial services
- Academics with a focus on securities regulation, consumer protection, investor rights or behavioural research

2.4 Terms. Members are generally appointed for two-year terms and cannot serve more than two consecutive terms. Some Members may be appointed to the inaugural IAP for a three-year term in order to stagger the turnover in IAP composition in subsequent years, to ensure effective functioning of the IAP. If a Member resigns before the end of their term, a new Member may be selected pursuant to the appointment process set out above.

2.5 Membership on other Investor Advisory Panels. Being a member on an investor advisory panel of another organization shall not disqualify an individual from applying for membership on the IAP or continuing to participate as a member of the IAP.

2.6 Chair. Members of the IAP will select a Chair whose responsibilities will include:

- Leading and managing IAP activities
- Coordinating IAP public comment submissions
- Preparing agendas for IAP meetings
- Chairing IAP meeting
- Monitoring the effectiveness of the IAP in achieving its mandate
- Ensuring that members speak with a cohesive voice on behalf of the IAP

2.7 Vice-Chair. Members of the IAP will select a Vice-Chair to act as Chair in case of the Chair's absence. In the event both the Chair and Vice-Chair are absent from a meeting, the members present shall choose one of their members to chair the meeting.

2.8 Removal of Members. If an IAP member is no longer able to meet the specified responsibilities, that member shall so advise the New SRO and shall resign from the IAP. If the IAP forms the view that a member is not meeting the specified responsibilities or has breached expected ethical and professional standards of conduct, the IAP shall be free to remove the member from the IAP.

2.9 Honorarium. Members of the IAP will receive an honorarium for their participation on the IAP.

Article 3 – Meetings

3.1 Frequency. The IAP will meet at least quarterly. The Chair of the IAP may schedule up to six additional meetings to fulfill the IAP's mandate without requiring approval of the New SRO.

3.2 Attendance. IAP members are expected to attend most meetings and must maintain a good attendance record as the presence of a majority of the members shall be necessary to constitute a quorum for the transaction of business at any meeting of the IAP.

3.3 Agendas. Meeting agendas shall be made public and set out at a minimum the dates of meetings, Member attendance and the topics discussed.

Article 4 – IAP Responsibilities

4.1. Effective execution of Mandate. Members must participate in the activities of the IAP and work collaboratively and effectively to execute the IAP's mandate.

4.2 Honesty, Integrity and Good Faith. Members must act with honesty, integrity and in good faith when executing their duties as part of the IAP.

4.3 Confidentiality. Members must maintain the confidentiality of information provided to the IAP by the New SRO including documents provided or the content or existence of any discussions held between them or the New SRO, unless specific consent is provided by the New SRO. Members shall not use, directly or indirectly, any information obtained or discovered as a result of their work on the IAP, for anything other than the IAP's activities.

4.4 Conflicts of Interest. IAP members must conduct themselves in a manner consistent with their role as advisors to the New SRO. If a conflict arises between the private interests of an IAP member and the responsibilities of that individual as an IAP member, the member shall disclose the conflict by submitting a letter to the New SRO Governance Committee outlining the nature of the conflict. The Governance Committee shall resolve the conflict in favour of the public interest.

IAP members may be in a conflict of interest if any employment, business, financial or other personal considerations could interfere with their ability to express opinions on investor issues being considered by the panel.

Article 5 – Reporting and Accountability

5.1 Meetings with and reporting to the New SRO Board. The IAP Chair must meet with the New SRO Board at least annually in addition to meeting with the New SRO executives. The IAP will provide a written report annually to the New SRO Board on its activities and performance against its mandate.

5.2 Annual Report. The IAP will publish a report annually on its activities for the preceding year on the New SRO public website.

Article 6 – Role of the New SRO

6.1 Liaison. The New SRO's Investor Office is the liaison between the IAP and the New SRO staff and serves as the Secretary to the IAP. The New SRO will respond to all formal communications from the IAP.

6.2 Administrative Support. The IAP will receive necessary administrative support from the New SRO to enable the IAP to operate effectively and will receive access to information as reasonably required.

21. Requirements for Québec

a) [New SRO] shall maintain a Québec district, which shall have clearly defined responsibilities in the matter of regulation, membership, sales compliance, financial compliance, markets monitoring, trade desk reviews and enforcement of the rules applicable to its Dealer Members, Market Members and Approved Persons.

b) The Québec district shall maintain a place of business in Québec, and any decision concerning the supervision of its self-regulatory activities and the Dealer Members, Market Members and Approved Persons of Québec shall be made principally by persons residing in Québec.

c) The most senior officer responsible for the Québec district shall report directly to the CEO of [New SRO].

d) The Québec district shall offer its members and the investing public all necessary services in French so as to provide a quality of service equivalent to that offered in English in other offices of [New SRO].

e) The Québec district shall ensure that French is the language used in all communications and correspondence with the AMF.

f) [New SRO] shall obtain the prior approval of the AMF before making a change to the organizational and administrative structure of the Québec district that might have an impact on its functions and activities in Québec, and on the exercise of its decision-making powers, notably as regards the financial, human and material resources allocated to the Québec district.

g) The Québec district shall have a separate budget which must be approved by the Board. The latter shall allocate to the Québec district the necessary resources and support to fulfil its duties, powers and activities, including material, informational and financial support, and human resources support.

h) The Québec district shall report to the AMF biannually on its staffing of each position, specifying the positions that are authorized, filled and vacant, as well as on major staff reductions or changes, for each position.

i) The Québec district shall report to the AMF upon request, through its most senior officer responsible for the Québec district, on the manner in which it exercises its functions and powers and performs its activities.

j) [New SRO] recognizes that the AMF, pursuant to the *Act respecting the regulation of the financial sector*, CQLR c. E-6.1 ("LESF") and the *Québec Securities Act*, CQLR, c. V-1.1 ("LVM"), has established a specific regulatory framework for the management of complaints and disputes ("LESF/LVM process"). [New SRO] recognizes that the complaints and disputes management process stipulated in its rules or in any other document shall not have the effect of limiting the application of the LESF/LVM process. [New SRO] undertakes to comply with and promote the LESF/LVM process, including the terms and conditions and time frames provided in the LESF and LVM and to cooperate fully in regard to its administration.

k) In the event of an incompatibility or a divergence between the LESF/LVM process and that of [New SRO], the LESF/LVM process shall prevail.

l) It is expressly understood that the coexistence of the LESF/LVM process and that of [New SRO], as provided in paragraph j) above, shall not constitute, either directly or indirectly, an agreement relative to the examination of complaints made by persons who are dissatisfied with their examination or the result of said examination, or to the mediation between interested parties pursuant to section 33.1 of the LESF.

m) [New SRO] recognizes and undertakes to respect the applicable laws of Québec.

n) [New SRO] shall ensure that firms registered as mutual fund dealers in Québec (« MFDs registered in Québec ») benefit from an adequate transition period, the duration of which shall be agreed upon with the AMF, for their integration with [New SRO] in regard to their activities in Québec.

o) During the transition period, [New SRO] for the activities carried out by MFDs in Québec:

   i. shall ensure that its bylaws, rules, decisions, notices or other instruments that do not apply to MFDs registered in Québec, with the exception of provisions required to ensure the smooth operation of [New SRO], as well as the implementation of the requirements stipulated in paragraph n) and in subparagraphs ii and iii of this paragraph o),

   ii. shall authorize MFDs registered in Québec to participate as members in the consultations of [New SRO] and on the committees that the latter shall create,

   iii. shall ensure that MFDs registered in Québec pay [New SRO] a reduced fee, the amount of which shall be proportional to the services offered to them.

p) [New SRO] shall obtain the prior approval of the AMF before making any change to its bylaws, rules, decisions, notices or other instruments concerning elements that are subject to the requirements stipulated in paragraphs n) and o) with the goal of ending or changing the conditions applicable to the transitional period, or

before taking any action that might have the effect of forcing an MFDs registered in Québec to subscribe to the guarantee fund of [New SRO] for its activities in Québec.

Appendix B

IN THE MATTER OF THE SECURITIES ACT, SNB 2004, CHAPTER S-5.5, AS AMENDED (the "Act")

AND
IN THE MATTER OF [NEW SRO]

RECOGNITION ORDER
(Subsection 35(1)(b) of the Act*)*

WHEREAS the Commission issued an order dated 1 June 2008, as amended on 28 May 2010, 21 March 2018 and 2 March 2021, recognizing the Investment Industry Regulatory Organization of Canada ("**IIROC**") as a self-regulatory organization under section 35(1)(b) of the Act.

AND WHEREAS the Commission issued an order dated 23 July 2007, as amended on 25 March 2008, 17 November 2008, 5 November 2014, 21 March 2018, and 2 March 2021 recognizing the Mutual Fund Dealers Association of Canada (the "**MFDA**") as a self-regulatory organization under subsection 35(1)(b) of the Act.

AND WHEREAS following public consultations, the Canadian Securities Administrators ("**CSA**") published CSA Position Paper 25-404 – *New Self-Regulatory Organization Framework*, recommending amalgamation of IIROC and the MFDA into a single self-regulatory organization in order to provide a framework for efficient and effective regulation in the public interest, including an enhanced governance structure, improved investor protection and education, and strengthened industry proficiency.

AND WHEREAS [New SRO] will, among other things, regulate mutual fund dealers, investment dealers and the trading on Marketplace Members, as defined in Appendix A to this order ("**Recognition Order"**); and perform the functions identified in section 15 *Performance of [New SRO] functions* of Appendix A to this Recognition Order.

AND WHEREAS [New SRO] will act as a regulation services provider in accordance with National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules.*

AND WHEREAS [New SRO] has committed to a strong corporate governance structure with a majority of independent directors on [New SRO]'s board of directors and its committees.

AND WHEREAS [New SRO] has committed to establish formal investor advocacy mechanisms to ensure proper investor input in policy development and rulemaking.

AND WHEREAS [New SRO] has adopted interim rules which include (i) the Investment Dealer and Partially Consolidated Rules, (ii) the Universal and Market Integrity Rules and (iii) the Mutual Fund Dealer Rules, which are largely based on the rules of IIROC and the rules and certain by-laws and policies of the MFDA that were in force immediately prior to amalgamation. [New SRO] has adopted, as applicable, policies, regulations, forms, notices, regulatory notices, bulletins, directives, guidance and fee models of IIROC and the MFDA that were in force immediately prior to amalgamation.

AND WHEREAS IIROC and the MFDA have applied to the Commission for recognition of [New SRO] as a self-regulatory organization under subsection 35(1)(b) of the Act ("**Application"**) to operate as a successor to IIROC and the MFDA following their amalgamation under the *Canada Not-for profit Corporations Act*.

AND WHEREAS [New SRO] has also applied to the Alberta Securities Commission; Autorité des marchés financiers; British Columbia Securities Commission; Manitoba Securities Commission; Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador; Office of the Superintendent of Securities, Northwest Territories; Nova Scotia Securities Commission; Office of the Superintendent of Securities, Nunavut; Ontario Securities Commission; Prince Edward Island Office of the Superintendent of Securities; Financial and Consumer Affairs Authority of Saskatchewan; and Office of the Yukon Superintendent of Securities (together with the Commission, the **Recognizing Regulators**).

AND WHEREAS the Recognizing Regulators have entered into a Memorandum of Understanding regarding oversight of [New SRO] ("**MOU**") effective [●], as amended from time to time.

AND WHEREAS IIROC and the MFDA are consolidating through amalgamation to continue as [New SRO], references to IIROC and the MFDA in the existing regulations, rules, orders, policies, notices or other instruments ("**Provisions**") in the jurisdictions of the Recognizing Regulators will be treated and interpreted as references to [New SRO] until the appropriate consequential amendments are implemented, if considered necessary. Whenever a Provision assigns requirements or privileges exclusively to either investment dealers or mutual fund dealers, who, prior to the amalgamation, were members of IIROC and the MFDA respectively, it is to be understood that such requirements and privileges shall apply exclusively to either investment dealers or mutual fund dealers of the [New SRO], as applicable.

AND WHEREAS based on the Application and the representations made by IIROC and the MFDA, the Commission is satisfied that recognizing [New SRO] as a self-regulatory organization is in the public interest.

AND WHEREAS the Commission may, if it is satisfied that to do so would be in the public interest, make any decision with respect to any by-law, rule, regulation, policy, procedure, interpretation or practice of a [New SRO].

AND WHEREAS the Commission may, if it is satisfied that to do so would not be prejudicial to the public interest, make an order revoking or varying this Recognition Order or any orders for IIROC and the MFDA.

IT IS ORDERED, under subsection 35(1)(b) of the Act, that [New SRO] is recognized as a self-regulatory organization, subject to the terms and conditions set out in Appendix A to this Recognition Order and the applicable provisions of the MOU.

Dated this [●], effective [●].

_____

Véronique Long
Secretary

APPENDIX A
TERMS AND CONDITIONS

Definitions

1. General

Unless otherwise defined or interpreted in this Recognition Order, every term used in this Recognition Order that is defined in subsection 1.1(3) of National Instrument 14-101 – *Definitions* has the meaning ascribed to it in that subsection.

"Affiliated Entity" has the meaning ascribed to it in subsection 1.3(1) of National Instrument 52-110 *Audit Committees.*

"Approved Person" has the meaning ascribed to that term in [New SRO]'s Rules.

"Associate", where used to indicate a relationship with any person, means:

(a) any company of which such person beneficially owns, directly or indirectly, voting securities carrying more than ten percent (10%) of the voting rights attached to all voting securities of the company for the time being outstanding;
(b) a partner of that person;
(c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;
(d) any relative of that person who resides in the same home as that person;
(e) any person who resides in the same home as the person and to whom that person is married or with whom that person is living in a conjugal relationship outside of marriage; or
(f) any relative of a person mentioned in clause (e) above, who has the same home as that person.

"Board" means the Board of Directors of the Corporation.

"Corporation" means [New SRO] and either of its predecessors and any Affiliated Entity.

"Dealer Member" means a Member of the Corporation that is registered as an investment dealer or a mutual fund dealer in accordance with securities legislation.

"Director" means a member of the Board.

"District" has the meaning ascribed to it in the [New SRO] by-laws.

“Enforcement proceeding” means any proceeding commenced by [New SRO] for the purposes of enforcement, including but not limited to a disciplinary hearing and settlement hearing.

“Executive Officer” has the meaning ascribed to it in section 1.1 of National Instrument 52-110 *Audit Committees.*

“Immediate Family Member” has the meaning ascribed to it in section 1.1 of National Instrument 52-110 *Audit Committees.*

“Marketplace” means:

(a) a recognized exchange or a commodity futures exchange registered in a jurisdiction of Canada;
(b) a recognized quotation and trade reporting system; or
(c) a person or company not included in clause (a) or (b) above that facilitates the trading of securities or derivatives in a jurisdiction of Canada; and
    (i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities or derivatives;
    (ii) brings together the orders for securities or derivatives of multiple buyers and sellers; and
    (iii) uses established non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade.

“Marketplace Member” means a Member that is a Marketplace.

“Member” means a member of the Corporation and includes Dealer Members and Marketplace Members.

“Monetary sanctions” means any fines or other monetary amounts, including disgorgement, ordered in or arising from an Enforcement Proceeding or any other measure taken by [New SRO]. Monetary sanctions do not include costs ordered in Enforcement Proceedings.

“Region” has the meaning ascribed to it in the [New SRO] by-laws.

“Regional Council” has a meaning ascribed to it in the [New SRO] by-laws.

“Recognizing Regulators” means the Alberta Securities Commission; Autorité des marchés financiers; British Columbia Securities Commission; Manitoba Securities Commission; Financial and Consumer Services Commission of New Brunswick; Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador; Office of the Superintendent of Securities, Northwest Territories; Nova Scotia Securities Commission; Office of the Superintendent of Securities, Nunavut; Ontario Securities Commission; Prince Edward Island Office of the Superintendent of Securities; Financial and

Consumer Affairs Authority of Saskatchewan; and Office of the Yukon Superintendent of Securities.

"Rule" means any rule, policy, form, fee model or other similar instrument of [New SRO].

"[New SRO] MOU" means Memorandum of Understanding regarding oversight of [New SRO].

Definition of Independent Director

2. (1) **"Independent Director"** means a Director who has no direct or indirect material relationship with the Corporation or a Member.

(2) For the purposes of subsection (1), a "material relationship" is a relationship which could be reasonably expected to interfere with the exercise of a Director's independent judgment.

(3) Despite subsection (1), the following individuals are considered to have a material relationship with the Corporation or a Member:

(a) an individual who is, or has been within the last three years, an employee or Executive Officer of the Corporation;

(b) an individual whose Immediate Family Member is, or has been within the last three years, an Executive Officer or non-independent director of the Corporation;

(c) an individual who, or whose Immediate Family Member, is or has been within the last three years, an Executive Officer of an entity if any of the Corporation's current Executive Officers serves or served at that same time on the entity's compensation committee;

(d) an individual who received, or whose Immediate Family Member who is employed as an Executive Officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12-month period within the last three years;

(e) an individual who is, or has been within the last three years, a partner, director, officer, employee, or person acting in a similar capacity of:

(i) a Member,
(ii) an Associate of a Member, or
(iii) an Affiliated Entity of a Member; and

(f) an individual who is, or has been within the last three years, an Associate of a partner, director, officer, employee, or person acting in a similar capacity of a Member.

(4) For the purposes of paragraph (3)(d), direct compensation does not include:

(a) remuneration for acting as a member of the Board or of any Board committee of the Corporation; and

(b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

(5) Despite subsection (3), an individual will ordinarily not be considered to have a material relationship with the Corporation solely because the individual or his or her Immediate Family Member

(a) has previously acted as an interim Chief Executive Officer (**CEO**) of the Corporation; or

(b) acts, or has previously acted, as a chair or vice-chair of the Board or of any Board committee of the Corporation on a part-time basis.

(6) If, despite the three-year cooling-off period described in paragraphs 3(e) and (f), the nature or duration of an individual's relationship with a Member, its Associates, or its Affiliated Entities could be reasonably expected to interfere with the exercise of that individual's independent judgment, then a sufficiently longer cooling-off period from the Member, Associate, and Affiliated Entity is required for that individual to be considered an Independent Director.

(7) Despite any determination made under subsections (2) to (6), an individual is considered to have a material relationship with the Corporation if the individual

(a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any subsidiary entity of the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board or any Board committee, or as a part-time chair or vice-chair of the Board or any Board committee; or

(b) is an Affiliated Entity of the Corporation or any of its subsidiary entities.

(8) For the purposes of subsection (7), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by

(a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

(b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or Executive Officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any subsidiary entity of the Corporation.

(9) For the purposes of subsection (7), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

Recognition criteria

3. [New SRO] must continue to comply with the criteria attached at Schedule 1.

Public interest

4. (1) [New SRO] must act in the public interest. In ensuring it meets the public interest mandate, the [New SRO] must:

(a) articulate in its constating documents and inform its stakeholders, and the public in general, of its public interest mandate;

(b) take reasonable steps to ensure that appropriate training is provided to its Directors, Board committee members, senior management, and staff in interpreting the [New SRO's] public interest mandate; and

(c) ensure that the compensation structure of its Executive Officers and senior management is appropriately linked to the effective delivery of the [New SRO's] public interest mandate.

Approval of changes

5. (1) Prior Commission approval is required for any changes to the following:

(a) the corporate governance structure of [New SRO];

(b) [New SRO]'s articles of amalgamation;

(c) the charter of the Board and each of its committees; and

(d) the assignment, transfer, delegation or sub-contracting of the performance of all or a substantial part of its regulatory functions or responsibilities as a self-regulatory organization.

(2) Prior Commission approval is required for material changes to the following:

(a) the fee model;

(b) the functions [New SRO] performs;

(c) [New SRO]'s organizational structure, including the location of New SRO offices or regulatory staff;

(d) the activities, responsibilities, and authority of the Regional Councils;

(e) Regions and Districts of the Corporation; and

(f) any regulation services agreement entered into by the [New SRO].

Non-objection to changes

6. (1) Prior Commission non-objection, as described in the Appendix A of the [New SRO] MOU, is required for the following:

(a) nomination of each candidate for an Independent Director position;

(b) appointment of the CEO;

(c) changes to Board skills matrices;

(d) changes to the CEO skills sub-matrix; and

(e) approval of a Board exemption, or an amendment or extension to a Board exemption, from a Rule that could have a significant impact on:

(i) Members and others subject to [New SRO]'s jurisdiction, or

(ii) the capital markets generally, including, for greater clarity, particular stakeholders or sectors.

Commission oversight

7. (1) [New SRO] must seek input from the Commission before finalizing its strategic and business plans, annual statements of priorities and budgets.

(2) [New SRO] must cooperate and assist with any reviews of its functions by the Commission or an independent third-party that is acting at the direction of the Commission.

(3) The scope of the independent third-party review, referred to in subsection (2), and the person or the persons that will undertake the review will be determined by the Commission. Such review will be at the [New SRO]'s expense, including [New SRO] reimbursing the Commission for any fees, when required.

Status

8. (1) [New SRO] must operate on a not-for-profit basis.

(2) [New SRO] must comply with any terms and conditions the Commission may impose in the public interest concerning any transaction that would result in [New SRO]:

(a) ceasing to perform its functions;

(b) discontinuing, suspending or winding-up all or a significant portion of its operations;

(c) disposing of all or substantially all of its assets; or

(d) terminating its agreement with an information technology service provider providing critical technology systems.

Rules and rule-making

9. [New SRO] must act in accordance with the process for introducing new or amending, revoking or suspending existing by-laws and Rules outlined in Appendix C of the [New SRO] MOU, as amended from time to time. For any proposal to be published for public comment, [New SRO] must consider and clearly articulate why the proposal is in the public interest.

Governance

10. (1) The Board

[New SRO] must ensure that:

(a) it maintains a Board size of not more than 15 Directors;

(b) the roles of CEO and chair of the Board are occupied by separate persons;

(c) a majority of the Board, including the chair, are Independent Directors;

(d) it maintains appropriate term limits for the Board; and

(e) it develops, maintains and complies with diversity and inclusion policies.

(2) Board committees

[New SRO] must ensure that:

(a) the governance committee of the Board is composed entirely of Independent Directors;

(b) other Board committees are composed of a majority of Independent Directors; and

(c) chairs of all Board committees are Independent Directors.

(3) Regional Councils

[New SRO] will establish Regional Councils according to its by-laws. The Regional Councils will serve an advisory role to [New SRO] to provide regional perspective on national or any other issues. The [New SRO] will allocate sufficient resources to the Regional Councils to ensure they can meaningfully fulfil their responsibilities. The Regional Councils will report to the Board at least annually.

Fees

11. [New SRO] must develop an integrated fee model to be approved by the Commission. Until such time, [New SRO] must seek authorization from the Commission for any increase in fees for Dealer Members that are not registered as both investment and mutual fund dealers where such increase is related to the costs of creation of [New SRO].

Investor engagement and protection

12. (1) [New SRO] must create mechanisms to educate and formally engage with investors, including for the purpose of obtaining input on the design and implementation of applicable Rule proposals. In particular, the [New SRO] must:

(a) establish an investor advisory panel to provide independent research or input on regulatory and public interest matters. The Board must meet with

the investor advisory panel at least annually in addition to [New SRO] executives meeting with the investor advisory panel;

(b) establish a separate investor office within the [New SRO] to support Rule development and provide investor education or outreach. The investor office must be prominently positioned, easily identifiable and accessible to investors;

(c) ensure that appropriate [New SRO] advisory committees include a reasonable proportion of investor representatives; and

(d) maintain a whistleblower program.

Due process

13. Subject to applicable laws and the Rules and by-laws of [New SRO], before rendering a decision that affects the rights of a person or company in relation to membership, registration, or enforcement matters, [New SRO] must provide that person or company an opportunity to be heard.

Record keeping

14. (1) [New SRO] must keep records of all matters subject to regulatory approvals by [New SRO] under the Rules and [New SRO] by-laws for an appropriate time period in accordance with legal and industry standards for record retention, including but not limited to:

(a) all granted membership requests, specifying the persons to whom membership was granted and the basis for its decision; and

(b) all denied membership requests or terms and conditions imposed on membership, specifying the basis for its decision.

Performance of [New SRO] functions

15. (1) [New SRO] must set Rules governing its Dealer Members and others subject to its jurisdiction, and [New SRO] must set Rules governing trading on Marketplace Members by Dealer Members and others subject to its jurisdiction.

(2) [New SRO] must administer and monitor compliance with both the applicable Rules and Canadian securities legislation by Members and others subject to its jurisdiction and enforce compliance with the Rules by Dealer Members, including alternative trading systems, and others subject to its jurisdiction.

(3) In its capacity as a regulation services provider, [New SRO] must administer, monitor and/or enforce rules pursuant to a regulation services agreement.

(4) [New SRO], through its Directors, officers and employees, must be responsible for all membership matters while giving consideration to any regional issues raised by the Regional Councils on an advisory basis.

(5) Subject to applicable legislation, [New SRO] must:

(a) collect, use and disclose personal information only to the extent reasonably necessary to carry out its regulatory activities and mandate; and

(b) protect personal information and confidential business information in its custody or under its control.

(6) [New SRO] must adopt policies and procedures designed to ensure that confidential information, including personal information, related to its operations or those of any Dealer Member, Marketplace Member or marketplace participant, is maintained in confidence and not shared inappropriately with other persons, and must use all reasonable efforts to comply with these policies and procedures.

(7) [New SRO] must ensure that it is accessible for contact by the public for purposes relating to the performance of its functions as a self-regulatory organization.

(8) [New SRO] must develop and make available to the public processes for handling complaints against the [New SRO], including appropriate escalation procedures.

(9) [New SRO] must publish concurrently in English and French each document issued to the public or generally to any class of Members.

(10) [New SRO] must, at least annually, self-assess the performance of its functions, and report thereon to its Board, together with any recommendations for improvements.

(11) [New SRO] must provide to the Commission any data, information or records concerning Marketplace activity in order, among other things, to facilitate the efficient identification and analysis of market misconduct and improvement of the insight into Canadian capital markets and market structures.

Use of Monetary Sanctions

16. (1) All Monetary Sanctions collected by [New SRO] may only be used, directly or indirectly, in the public interest as follows:

(a) as approved by the governance committee,

(i) for the development of systems or other related expenditures that are necessary to address emerging regulatory issues and are directly related to protecting investors or the integrity of the capital markets, provided that any such use does not constitute normal course operating expenses,

(ii) for education or research projects that are directly relevant to the investment industry, and which benefit the public or the capital markets,

(iii) for specific funding related to a whistleblower program, provided that any such use does not constitute normal course operating expenses,

(iv) to contribute to a non-profit, tax-exempt organization, the purposes of which include protection of investors, or those described in paragraph (a)(ii), or

(v) for such other purposes as may be subsequently approved by the Commission;

or

(b) for reasonable costs associated with the administration of [New SRO]'s investor office, investor advisory panel and [New SRO]'s hearings.

(2) The process to allocate such Monetary Sanctions must be fair and transparent.

Public Notice of Enforcement Proceedings

17. (1) Subject to subsection (2) and applicable laws, [New SRO] must

(a) promptly notify the public and the news media of:

(i) the specifics relating to each Enforcement Proceeding commenced by [New SRO], and

(ii) the disposition of each Enforcement Proceeding, including reasons; and

(b) ensure that Enforcement Proceedings are open to the public and the news media.

(2) Despite subsection (1), [New SRO] may, on its own initiative or on request of a party to the Enforcement Proceeding, or as permitted by its Rules, conduct a closed-door hearing or prohibit the publication or release of information or documents if it determines that it is required for the protection of confidential matters. [New SRO] must establish written criteria for making a determination of confidentiality.

Capacity and integrity of systems

18. (1) [New SRO] must

(a) ensure that each of [New SRO]'s critical technology systems has

(i) appropriate internal controls to ensure integrity and security of information and data, and

(ii) reasonable and sufficient capacity, and backup to enable [New SRO] to properly carry on its business;

(b) have controls to manage the risks associated with its operations, including an annual review of its contingency and business continuity plan.

(2) [New SRO] must, on a reasonably frequent basis, and in any event at least annually, cause to be performed an independent review of the controls and capacity described in subsection (1) above in accordance with established audit procedures and standards. The Board must conduct a review of the report containing the recommendations and conclusions of the independent review. [New SRO] must also, on a reasonably frequent basis, and in any event at least annually, complete the following, which may be completed as part of the independent review:

(a) make reasonable current and future capacity estimates for its critical technology systems;

(b) conduct capacity stress tests to determine the processing capability of those systems to perform its functions in an accurate, timely and efficient manner;

(c) review and keep current the development and testing methodology of those systems; and

(d) review the vulnerability of those systems to internal and external threats including, but not limited to, cyber attacks, physical hazards or natural disasters.

(3) The term and condition in subsection (2) above will not apply if:

(a) the information technology provider retained by [New SRO] is required, either by law or otherwise, to conduct an annual independent review; and

(b) [New SRO]'s Board obtains and reviews annually a copy of the independent review report of its information technology provider to ensure that it has controls in place to address the matters outlined in paragraphs (1) and (2) above.

(4) [New SRO] must, periodically or at the request of the Commission, benchmark surveillance systems and services provided by its information technology providers against comparable systems and services available from other third-party technology providers.

Capacity and integrity of continuing education tracking system

19. (1) The [New SRO] must ensure that its continuing education tracking system, has

(a) appropriate internal controls to ensure integrity and security of information; and

(b) has reasonable and sufficient capacity, and backup to enable the [New SRO] to properly carry on its business.

(2) The [New SRO] must on a reasonably frequent basis, and at least biennially, cause a report to be prepared in accordance with established audit standards by a qualified party which provides details of a review designed to ensure that the continuing education tracking system has an adequate system of internal controls, including, but not limited to, integration into the [New SRO] business continuity and disaster recovery plans.

(3) Before finalizing any engagement to prepare the report described in (2), the [New SRO] must discuss the choice of qualified party and scope of the review with the Commission.

Ongoing reporting requirements

20. (1) [New SRO] must comply with the requirements set out in Schedule 2 of this Recognition Order, as amended from time to time by the Commission.

(2) [New SRO] must provide the Commission with other reports, documents and information and data in a format and manner acceptable to the Commission as the Commission or its staff may request.

Requirements for New Brunswick

21. (1) In New Brunswick, [New SRO] shall offer all necessary services in equal quality in both French and English to members of any class and to investors.

(2) At the request of the Commission, [New SRO] will communicate to it any report, document or information in French or English.

SCHEDULE 1
CRITERIA FOR RECOGNITION

Public interest guiding principles

1. (1) The [New SRO] must act in the public interest by, without limitation:

(a) protecting investors from unfair, improper, or fraudulent practices by its Members;

(b) fostering fair and efficient capital markets and promoting market integrity;

(c) fostering public confidence in capital markets;

(d) facilitating investor education;

(e) administering a fair, consistent and proportionate continuing education program for all Dealer Members and applicable Approved Persons;

(f) accommodating innovation and ensuring flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection;

(g) providing effective market surveillance;

(h) fostering efficient and effective cooperation and coordination with the Recognizing Regulators to ensure regulatory alignment;

(i) facilitating access to advice and products for investors of different demographics;

(j) recognizing and incorporating regional considerations and interests from across Canada;

(k) facilitating meaningful consultation and input from all types of Members and ensuring that investor perspectives are factored into the development and implementation of regulatory policies;

(l) administering robust compliance, enforcement and complaint handling and resolution processes;

(m) contributing to financial stability, under the direction of the Recognizing Regulators; and

(n) administering effective governance and accountability to all stakeholders and preventing regulatory capture.

Governance

2. (1) The governance structure and arrangements must be transparent and ensure:

(a) effective oversight of the [New SRO];

(b) fair, meaningful and diverse representation on the Board and any committees of the Board;

(c) a proper balance among the interests of the different persons, business models and companies subject to regulation by [New SRO];

(d) a reasonable proportion of the [New SRO] Directors that have relevant experience regarding investor protection issues;

(e) a balanced Board in terms of its geographic representation;

(f) appropriate locations of the Executive Officers;

(g) each Director or Executive Officer is a fit and proper person; and

(h) that there are appropriate provisions related to, remuneration, conflicts of interest, limitation of liability, indemnification and qualifications for Directors, officers and employees of the [New SRO].

Conflicts of interest

3. Subject to applicable legislation, [New SRO] must identify and avoid real, potential or perceived conflicts of interest between its own interests, or the interests of its Directors, officers, or employees and the public interest.

Fees

4. (1) All fees imposed by [New SRO] must be equitably allocated and be proportionate to Members' activities. Fees must not have the effect of creating unreasonable barriers to access.

(2) The process for setting fees must be fair and transparent.

(3) [New SRO] must operate on a cost-recovery basis.

Compensation or contingency trust fund

5. [New SRO] must comply with any agreement signed with the [New IPF].

Access

6. (1) [New SRO] must have reasonable written criteria that permit all persons or companies that satisfy the criteria to access [New SRO]'s regulatory services.

(2) The access criteria and the process for obtaining access must be fair and transparent.

Financial viability

7. [New SRO] must have sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

Capacity to perform [New SRO] functions

8. (1) [New SRO] must maintain its capacity to effectively and efficiently perform its functions, which include governing the conduct of persons or companies subject to its regulation and monitoring and enforcing applicable requirements.

(2) [New SRO] must maintain in each jurisdiction where it has an office

(a) sufficient financial, technological, human and other resources; and

(b) appropriate organizational structures

to efficiently, equitably and effectively perform its functions and responsibilities in a timely manner.

(3) In the course of performing its functions, the [New SRO] must take into consideration the views and processes of the Commission.

Capacity and integrity of systems

9. [New SRO] must develop, implement and maintain adequate controls to ensure capacity, integrity requirements and security of its technology systems.

Rules

10. (1) [New SRO] must establish and maintain Rules that:

(a) are necessary or appropriate to govern and regulate all aspects of its functions and responsibilities as a self-regulatory organization;

(b) are designed to

(i) ensure compliance with applicable securities legislation,

(ii) prevent fraudulent and manipulative acts and practices,

(iii) promote just and equitable principles of trade and the duty of Dealer Members to act fairly, honestly and in good faith with their clients,

(iv) ensure adequate proficiency and continuing education of Approved Persons,

(v) foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information or data with respect to, and facilitating transactions in, securities and derivatives,

(vi) foster fair, equitable and ethical business standards and practices,

(vii) promote access to advice in different geographic zones, including the servicing of clients in both urban and rural settings,

(viii) allow Members to develop and make use of technological advancements to achieve greater efficiencies and productivity, while mitigating any risks to the investors and the public,

(ix) promote the protection of investors,

(x) be scalable and proportionate to different types and sizes of Dealer Member firms and their respective business models,

(xi) contributing to financial stability, under the direction of the Recognizing Regulators, and

(xii) provide for appropriate discipline of those whose conduct it regulates;

(c) do not impose any burden or constraint on competition or innovation that is not necessary or appropriate;

(d) do not impose costs or restrictions on the activities of market participants that are disproportionate or contrary to the public interest; and

(e) promote the public interest.

Disciplinary matters

11. (1) [New SRO] must develop, make available to the public and follow fair and transparent processes for:

(a) handling disciplinary matters, including assessments of adequacy of firm supervision of Approved Persons;

(b) conducting disciplinary hearings; and

(c) imposing sanctions.

Information sharing and regulatory cooperation

12. (1) To assist the Commission and other Recognizing Regulators in carrying out their regulatory mandates, [New SRO] must proactively and transparently share information or data and cooperate with the Commission and other Recognizing Regulators.

(2) To assist other regulatory authorities in carrying out their regulatory mandates, [New SRO] must proactively and transparently share information or data and cooperate with, whether domestic or foreign:

(a) exchanges;

(b) self-regulatory organizations;

(c) clearing agencies;

(d) financial intelligence or law enforcement agencies or authorities;

(e) banking and financial services authorities; and

(f) investor protection or compensation funds.

(3) Cooperation contemplated under paragraphs (1) and (2) includes the collection and sharing of information or data and other forms of assistance for the purpose of registration, market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose and is subject to applicable laws related to information sharing and protection of personal information.

Other criteria – Québec

13. The constituting documents, by-laws and Rules of [New SRO] must allow that the power to make decisions relating to the supervision of its activities in Québec will be exercised mainly by persons residing in Québec.

SCHEDULE 2
REPORTING REQUIREMENTS

Prior notification

1. (1) [New SRO] will provide the Commission with at least 12 months' written notice prior to completing any transaction that would result in [New SRO]:

(a) ceasing to perform its functions;

(b) discontinuing, suspending or winding-up all or a significant portion of its operations; or

(c) disposing of all or substantially all of its assets.

(2) [New SRO] will provide the Commission with at least three months' written notice prior to:

(a) terminating its agreement with an information technology service provider providing critical technology systems; or

(b) any intended material change to its agreement with an information technology service provider regarding its critical technology systems.

Immediate notification

2. (1) [New SRO] will immediately notify the Commission of the following events:

(a) the admission of a new Dealer Member, including the Dealer Member's name, and any terms and conditions that are imposed on the Dealer Member;

(b) Dealer Members whose rights and privileges or membership will be suspended, terminated or made subject to terms and conditions, including:

(i) the Dealer Member's name,

(ii) the reasons for the proposed suspension, termination or terms and conditions, and

(iii) a description of the steps being taken to ensure that the Dealer Member's clients are being dealt with appropriately, when applicable.

(c) receipt of a Dealer Member's intention to resign; and

(d) receipt of an application for a Board exemption, or an amendment or extension to a Board exemption, from a Rule that could have a significant impact on:

(i) [New SRO] Members and others subject to [New SRO]'s jurisdiction, or

(ii) the capital markets generally including, for greater clarity, particular stakeholders or sectors.

(2) The notice required in subsection (1), other than in (b) and (d), may be provided by [New SRO] issuing a public notice containing the information, provided that such public notice will be issued immediately after the decision is made for admission and immediately after receipt of a notice of intention to resign, as the case may be.

Prompt notification

3. (1) [New SRO] will provide the Commission with prompt notice of the following events and situations, and in each case describe the circumstances that gave rise to the reportable event or situation, and [New SRO]'s proposed response to ensure resolution, and, if appropriate, provide timely updates:

(a) changes in the members of [New SRO]'s Board and its committees;

(b) situations that would reasonably be expected to raise concerns about [New SRO]'s financial viability, including but not limited to, an inability to meet its expected expenses for the next quarter or the next year;

(c) any determination by [New SRO], or notification from any of the Recognizing Regulators, that [New SRO] is not or will not be in compliance with one or more of the terms and conditions of its recognition in any jurisdiction;

(d) any material violations of applicable securities legislation of which [New SRO] becomes aware in the ordinary course operation of its activities and activities of its Members;

(e) any material failures in the controls described in terms and conditions 18(1)(a)(i) and (ii) of Appendix A of the Recognition Order;

(f) any failure, malfunction, delay or material security incident, including cyber security breaches, of [New SRO]'s critical systems or technology systems that support [New SRO]'s critical systems;

(g) any breach of security safeguards involving information or data under [New SRO]'s control if it is reasonable in the circumstances to believe that the breach creates a real risk of significant harm to investors, issuers, registrants, other market participants, [New SRO], [New IPF] or the capital markets;

(h) actual or apparent misconduct or non-compliance by Dealer Members, Approved Persons, marketplace participants, or others, where investors, clients, creditors, Members, [New IPF] or [New SRO] may reasonably be expected to suffer material damage as a consequence thereof, including but not limited to:

(i) where fraud appears to be present,

(ii) where there is an inadequate compliance system or the Ultimate Designated Person or Chief Compliance Officer fail to perform their responsibilities, or

(iii) where serious deficiencies in supervision or internal controls exist.

(i) situations that would result in material misstatement of the Dealer Member's financial statements or that would reasonably be expected to raise concerns about a Dealer Member's continued viability, including but not limited to, capital deficiency, early warning, and any condition which, in the opinion of [New SRO], could give rise to payments being made out of [New IPF], including any condition which, alone or together with other conditions, could, if appropriate corrective action is not taken, reasonably be expected to:

(i) inhibit the Dealer Member from promptly completing securities transactions, promptly segregating clients' securities as required or promptly discharging its responsibilities to clients, other members, or creditors, or

(ii) result in material financial loss to the Dealer Member or its clients;

(j) any action taken by [New SRO] with respect to a Dealer Member in financial difficulty;

(k) any terms and conditions imposed, varied or removed by [New SRO] relating to a Dealer Member; and

(l) any enforcement agreement and undertaking entered into, varied or rescinded at [New SRO]'s request relating to a Dealer Member.

Quarterly reporting

4. (1) [New SRO] will file on a quarterly basis with the Commission a written report pertaining to [New SRO]'s regulatory operations promptly after the report is reviewed or approved by the Board, Board committees, or senior management, as the case may be, containing at a minimum the following information and documents:

(a) a summary of ongoing initiatives, policy changes, and emerging or key issues that arose in the previous quarter for each of [New SRO]'s regulatory operations;

(b) a summary of innovation or technological initiatives that facilitate Members' development and use of technological advancements to achieve better efficiencies and productivity;

(c) a summary of all compliance examinations in progress or completed during the previous quarter, and all compliance examinations scheduled to be commenced in the upcoming quarter by [New SRO] office and department, including information on repeat or significant deficiencies;

(d) a summary of any terms and conditions imposed, varied or removed relating to Approved Persons during the previous quarter;

(e) a summary of all discretionary exemptions granted to individuals, Dealer Members, and marketplace participants during the previous quarter;

(f) summary statistics for the previous quarter regarding all client complaints, and complaints received from other sources including, but not limited to, any other securities regulatory authority;

(g) summary statistics by office for the previous quarter regarding the caseload for each of case assessment, trading review and analysis, market surveillance, investigations and prosecutions, separated between Dealer Member and Marketplace regulation cases, including the length of time the files have been open;

(h) a summary of enforcement files that were referred to any of the Recognizing Regulators during the previous quarter; and

(i) [New SRO]'s regulatory staff complement, categorized by function, and details of any changes or reductions in regulatory staffing, by function, during the previous quarter.

Annual reporting

5. (1) [New SRO] will file on an annual basis with the Commission a written report pertaining to [New SRO]'s regulatory operations promptly after the report is reviewed or approved by [New SRO]'s Board, Board committees, or senior management, as the case may be, containing at a minimum the following documents:

(a) the self-assessment referred to in term and condition 15(10) in Appendix A of the Recognition Order. The self-assessment must contain information as specified by Commission staff from time to time and include the following information:

(i) an assessment of how [New SRO] is meeting its regulatory and public interest mandate, including an assessment against the recognition criteria in Schedule 1 of the Recognition Order and the terms and conditions in Appendix A of the Recognition Order,

(ii) an assessment of its performance as compared to its strategic plan,

(iii) a description of trends seen as a result of compliance reviews, investigations and prosecutions conducted, and complaints received, including [New SRO]'s plan to deal with any issues,

(iv) whether [New SRO] is meeting its benchmarks, and reasons for any benchmarks not being met,

(v) a complete organizational chart,

(vi) a description and update on significant projects undertaken by [New SRO],

(vii) a description of issues raised by any of the Recognizing Regulators, external auditors or internal audit, which are being tracked by [New SRO]'s senior management, together with a summary of the progress made on their resolution, and

(viii) a description of material issues raised and recommendations made by the Regional Councils to the Board, including identification of and written explanation regarding the issues and recommendations that were rejected or only partially adopted by the Board;

(b) certification by [New SRO]'s CEO and general counsel that [New SRO] is in compliance with the terms and conditions applicable to it in Appendix A of the Recognition Order.

Financial reporting

6. (1) [New SRO] will file with the Commission unaudited quarterly financial statements with notes within 60 days after the end of each financial quarter.

(2) [New SRO] will file with the Commission audited annual financial statements accompanied by the report of an independent auditor within 90 days after the end of each fiscal year.

Other reporting

7. (1) On a timely basis, [New SRO] will provide the Commission with the following information, and documents after publication or completion of review and approval by [New SRO]'s Board, Board committees, or senior management, as the case may be:

(a) The results from any reviews referred to in term and condition 7(2) in Appendix A of this Recognition Order, if applicable, and a remediation plan or any other relevant documentation;

(b) material changes to the Board and employee code of conduct and the written policy about managing potential conflicts of interests of Directors and employees;

(c) the financial budget for the current year, together with the underlying assumptions, that have been approved by the Board;

(d) the reports referred to in terms and conditions 18(2) and 19(2) in Appendix A of the Recognition Order;

(e) the results of benchmarking of surveillance systems and services referred to in term and condition 18(4) in Appendix A of the Recognition Order, together with a summary of the process undertaken and conclusions reached;

(f) enterprise risk management reports, and any material changes to enterprise risk management methodology;

(g) the internal audit charter, annual internal audit plan, and internal audit reports;

(h) the annual report for the current year;

(i) the compliance examination plan for the current year;

(j) material changes to the compliance or enforcement processes or scope of work, including departmental risk assessment models.

(2) [New SRO] will provide the Commission with reasonable prior notice of any document that it intends to publish or issue to the public or to any class of Members which, could have a significant impact on:

(a) its Members and others subject to its jurisdiction; or

(b) the capital markets generally including, for greater clarity, particular stakeholders or sectors.

(3) The [New SRO] must not publish or issue any document referred to in subsection 7(2) until the Recognizing Regulators notify the [New SRO] that they have no questions or comments on the publication or issuance of that document.

(4) [New SRO] will, upon request and as soon as practicable, provide the Commission with information concerning closed investigations and prosecutions, whether or not resulting in disciplinary actions, including the final investigation report, recommendation memorandum and penalty memorandum, if applicable.

Appendix C

MEMORANDUM OF UNDERSTANDING REGARDING OVERSIGHT OF [NEW SRO] AMONG:

ALBERTA SECURITIES COMMISSION
AUTORITÉ DES MARCHÉS FINANCIERS
BRITISH COLUMBIA SECURITIES COMMISSION
MANITOBA SECURITIES COMMISSION
FINANCIAL AND CONSUMER SERVICES COMMISSION OF NEW BRUNSWICK
OFFICE OF THE SUPERINTENDENT OF SECURITIES, DIGITAL GOVERNMENT AND SERVICE NEWFOUNDLAND AND LABRADOR
OFFICE OF THE SUPERINTENDENT OF SECURITIES, NORTHWEST TERRITORIES
NOVA SCOTIA SECURITIES COMMISSION
OFFICE OF THE SUPERINTENDENT OF SECURITIES, NUNAVUT
ONTARIO SECURITIES COMMISSION
PRINCE EDWARD ISLAND OFFICE OF THE SUPERINTENDENT OF SECURITIES
FINANCIAL AND CONSUMER AFFAIRS AUTHORITY OF SASKATCHEWAN
OFFICE OF THE YUKON SUPERINTENDENT OF SECURITIES

(each a **Recognizing Regulator (RR)**, collectively the **Recognizing Regulators** (**RRs**) or the **Parties**)

The Parties agree as follows:

1. Underlying Principles

a. Recognition

[New SRO] is recognized as a self-regulatory organization under applicable securities legislation by each of the RRs and is a regulation services provider pursuant to National Instrument 23-101 *Trading Rules*.

b. Oversight Program

To ensure effective oversight of [New SRO]'s performance of its functions, the Parties to this Memorandum of Understanding (**MOU**) have developed an oversight program (**Oversight Program**) with respect to [New SRO] which includes:

(i) review of information filed by [New SRO], as set out in section 4;

(ii) non-objection process, as set out in section 5;

(iii) oversight reviews of [New SRO], as set out in section 6; and

(iv) review of By-Laws and Rules of [New SRO], as set out in section 7.

The purpose of the Oversight Program is to ensure that [New SRO] is acting in accordance with its public interest mandate, and complying with the terms and conditions of the [New SRO] Recognition Order.

c. Oversight Guiding Principles

The guiding principles for the RRs' joint oversight of [New SRO] are:

(i) Harmonious direction – the RRs will strive to speak as one when giving direction to [New SRO];

(ii) Transparency – each RR shares with other RRs important communications with [New SRO] in a timely manner; and

(iii) Efficiency – each RR will strive to conduct oversight in an effective manner while attempting to minimize the resources required from other RRs and [New SRO].

d. Previous Memoranda of Understanding

This MOU replaces the memoranda of understanding that took effect on April 1, 2021 between the applicable RRs of the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) in respect of the oversight of IIROC and the MFDA.

2. Definitions

Unless otherwise defined or interpreted in this MOU, every term used in this MOU that is defined in subsection 1.1(3) of National Instrument 14-101 – *Definitions* has the meaning ascribed to it in that subsection.

"Approved Person" has the meaning ascribed to that term in [New SRO] Rules.

"Board" has the meaning ascribed to that term in [New SRO] Recognition Order.

"Coordinators" mean the two RRs that are designated as such from time to time by consensus of all the RRs.

"Independent Director" has the meaning ascribed to that term in [New SRO] Recognition Order.

"Member" has the meaning ascribed to that term in [New SRO] Recognition Order.

"Reviewing Regulator" means an RR that is participating in an oversight review of [New SRO].

"Rule" means any rule, policy, form, fee model or other similar instrument of [New SRO].

"Rule Change" means a new Rule, or an amendment, a revocation or a suspension of an existing Rule.

"[New SRO] Recognition Order" means an order issued by each RR pursuant to its securities legislation recognizing [New SRO] as a self-regulatory organization.

3. General Provisions

a. Oversight Committee

The RRs will establish an oversight committee (**Oversight Committee**) which will act as a forum and venue for the discussion of issues, concerns and proposals related to the oversight of [New SRO].

Each of the RRs shall designate from time to time representatives on the Oversight Committee.

The Oversight Committee will provide to the Chairs of the RRs an annual written report that will include a summary of all oversight activities conducted during the previous period (**Annual Report on Oversight Activities**). The Annual Report on Oversight Activities will also be published.

b. Coordinators

The two RRs that are designated as Coordinators are tasked with the role of coordinating, communicating and scheduling activities of the Oversight Program between the RRs, and between the RRs and [New SRO]. The Coordinators must not make any unilateral decision, or give unilateral direction, with respect to [New SRO].

The Coordinators will serve for four years on a staggered rotation basis among the two designated RRs. Initially, one of the two Coordinators will be replaced after two years, and thereafter each Coordinator will have a four-year term, such that a new Coordinator will be designated to replace a current Coordinator every two years. Designation of a new Coordinator will be made one year in advance of the end of an exiting Coordinator's term.

c. Staff Contact

The Coordinators will provide [New SRO] with key staff contacts in each jurisdiction for the purposes of matters arising under this MOU or relating to oversight in general.

d. Status Meetings

The Coordinators will organize quarterly conference calls and an annual in-person meeting of the Oversight Committee and [New SRO] staff. The purpose is to discuss matters relating to the Oversight Program of [New SRO], issues relating to the regulation of [New SRO]'s Members and other matters that are of interest to the RRs and [New SRO]. The Coordinators are also responsible for taking minutes of these calls and in-person meetings.

4. Review of Information Filed

Any comments of the staff of the RRs on information filed by [New SRO] will be sent to the Coordinators, with a copy to staff of the other RRs. The Coordinators will request that [New SRO] respond to comments raised by the RRs and copy staff of the other RRs on its response.

5. Non-Objection Process

The RRs have developed a non-objection process, as set out in Appendix A.

6. Oversight Reviews

The RRs have developed procedures for performing periodic reviews of [New SRO]'s functions, as set out in Appendix B.

7. Review of By-laws and Rules

The RRs have developed a Joint Rule Review Protocol (**Protocol**) for coordinating the review and approval of, or non-objection to, [New SRO] by-laws and Rules, as set out in Appendix C.

8. Information Sharing and Confidentiality

(a) Without limiting the transparency guiding principle in section 1(c) or any information sharing agreements to which an RR or [New SRO] is a party, each RR will share with other RRs, and authorize [New SRO] to share on a timely basis with other RRs in circumstances where other RRs may be significantly impacted:

(i) directives from an RR to [New SRO], and

(ii) other information or data communicated between the RR and [New SRO],

excluding circumstances where an RR is obligated to maintain confidentiality from other parties, namely where personal information is concerned.

(b) All notices, reports, documents and any other information or data shared amongst any of the RRs pursuant to this MOU are shared exclusively for the regulatory purposes of the RRs, and with the expectation that they be shared and maintained in confidence, except as may otherwise be required by applicable law. Necessary and appropriate safeguards should be maintained to protect the confidentiality of documents. If any RR is required to disclose or provide access to such information or data provided by another RR, the recipient RR should assert all appropriate legal exemptions or privileges with respect to such information or data as may be available, and notify and obtain the written consent of the other RR, where permissible, prior to complying with such a requirement.

9. Authority

Nothing in this MOU is intended to limit the powers of any of the RRs under applicable securities legislation to take any measures authorized or required under such legislation.

10. Appendices

The MOU represents the RRs' commitment to a coordinated and cooperative approach to conducting the Oversight Program, and the appendices are integral to the execution of this commitment.

11. Amendments to and Withdrawal from this MOU

This MOU may be amended from time to time, as mutually agreed upon by the RRs. Any amendments must be in writing and approved by the duly authorized representatives of each RR in accordance with the applicable legislation of each province or territory.

This MOU may be terminated if mutually agreed upon by the RRs.

Each RR can, at any time, withdraw from this MOU on at least 90 days' written notice to the Coordinators and to each RR.

12. Effective Date

This MOU comes into effect on [●].

IN WITNESS WHEREOF the duly authorized signatories of the parties below have signed this MOU as of the Effective Date of the MOU stated above.

ALBERTA SECURITIES COMMISSION

Per:_____

Title:_____

AUTORITÉ DES MARCHÉS FINANCIERS

Per:_____

Title:_____

BRITISH COLUMBIA SECURITIES COMMISSION

Per:_____

Title:_____

MANITOBA SECURITIES COMMISSION

Per:_____

Title:_____

FINANCIAL AND CONSUMER SERVICES COMMISSION OF NEW BRUNSWICK

Per:_____

Title:_____

OFFICE OF THE SUPERINTENDENT OF SECURITIES, DIGITAL GOVERNMENT AND SERVICE NEWFOUNDLAND AND LABRADOR

Per:_____

Title:_____

DEPUTY MINISTER FOR INTERGOVERNMENTAL AFFAIRS NEWFOUNDLAND AND LABRADOR

Per:_____

Title:_____

OFFICE OF THE SUPERINTENDENT OF SECURITIES, NORTHWEST TERRITORIES

Per:_____

Title:_____

NOVA SCOTIA SECURITIES COMMISSION

Per:_____

Title:_____

OFFICE OF THE SUPERINTENDENT OF SECURITIES, NUNAVUT

Per:_____

Title:_____

ONTARIO SECURITIES COMMISSION

Per:_____

Title:_____

PRINCE EDWARD ISLAND OFFICE OF THE SUPERINTENDENT OF SECURITIES

Per:_____

Title:_____

FINANCIAL AND CONSUMER AFFAIRS AUTHORITY OF SASKATCHEWAN

Per:_____

Title:_____

OFFICE OF THE YUKON SUPERINTENDENT OF SECURITIES

Per:_____

Title:_____

Appendix A
Non-Objection Process

1. Purposes of non-objection process

The RRs agree and hereby adopt a non-objection process for the following purposes:

(a) nomination of each candidate for an Independent Director position;

(b) appointment of the Chief Executive Officer (**CEO**);

(c) changes to the Board skills matrices;

(d) changes to the CEO skills sub-matrix; and

(e) approval of a Board exemption, or an amendment or extension to a Board exemption, from a Rule that could have a significant impact on:

(i) Members and others subject to [New SRO]'s jurisdiction; or

(ii) the capital markets generally, including, for greater clarity, particular stakeholders or sectors.

2. Non-objection criteria

Without limiting the discretion of each RR, the RRs agree to consider these factors when following the non-objection process:

(a) whether the proposed action subject to the non-objection process is in the public interest;

(b) whether [New SRO] has provided sufficient analysis; and

(c) whether there are conflicts with applicable laws or the terms and conditions of [New SRO]’s recognition.

3. Required filings

(a) **Language requirements.** [New SRO] will file the information required under this section concurrently in both English and French.

(b) **Filings**. [New SRO] will file the following information with staff of the RRs, and upon request by any RR, any other document or information:

(i) under subsection 1(a):

(A) documentation including the analysis undertaken to confirm the independence of a candidate.

(ii) under subsection 1(b):

(A) documentation including the analysis undertaken to support the selection of the CEO;

(B) confirmation that the CEO nominee has passed the fit and proper assessment by the Board; and

(C) completed CEO skills sub-matrix.

(iii) under subsection 1(c):

(A) Board skills matrices reflecting proposed changes, including rationale.

(iv) under subsection 1(d):

(A) CEO skills sub-matrix reflecting proposed changes, including rationale.

(v) under subsection 1(e):

(A) memorandum and supporting information used by the Board to inform their decision.

4. Non-Objection Process

(a) **Confirming receipt**. Upon receipt of the materials filed under subsection 3(b), staff of the Coordinators will, as soon as practicable, send written confirmation of receipt to [New SRO], with a copy to staff of the other RRs.

(b) **RR review**. Staff of each RR will provide any comments in writing to staff of the other RRs within 10 business days of receiving the materials filed under subsection 3(b), or as otherwise agreed upon by staff of the RRs. The process to provide comments and obtain responses from [New SRO] will be established and agreed upon by staff of the RRs. If no comments are provided by staff of an RR within the prescribed period, then that RR will be deemed not to object.

(c) **Intention to object.** After completing the comment process provided under subsection 4(b) above, if all RRs do not intend to object, staff of the

Coordinators will send a written notice of non-objection to [New SRO] and will copy staff of all RRs. If staff of any RR intends to recommend that the RR objects, the RRs will use best efforts to adhere to the following:

(i) within a reasonable timeline agreed upon by staff of the RRs, staff of any RR who intends to make a recommendation that the RR objects will advise staff of the other RRs, in writing, of their intended recommendation and provide reasons for it;

(ii) within 5 business days of receiving or sending a notice of intended recommendation, staff of the Coordinators will convene a conference call with staff of the other RRs and, as applicable, [New SRO];

(iii) if the intended recommendation still exists after any such discussion, staff of the applicable RRs will, within a reasonable timeline agreed upon by staff of the RRs, recommend to their respective decision makers that they object;

(iv) if the decision maker of any RR intends to object, the Coordinators will provide written notification to [New SRO] with reasons for the intended objection and copy staff of the other RRs, and will give [New SRO] an opportunity to present written submissions;

(v) after considering the written submissions provided by [New SRO], if any of the RRs still intends to object, then the RRs shall use the process provided under section 12 of Appendix C of this MOU, but not including the process described at section 13, with necessary adaptations;

(vi) if any RR objects after having completed the process described in paragraph 4(c)(v), it will provide promptly a written confirmation of objection to staff of the other RRs. Staff of the Coordinators will then provide to [New SRO] a written notice of objection and will copy staff of the other RRs;

(vii) if after completing the process described in paragraph 4(c)(v), RRs that intended to object as described in paragraph 4(c)(iv) do not object, they will provide promptly a written non-objection confirmation to staff of the other RRs. RRs that did not intend to object will be deemed not to object. Staff of the Coordinators will then send a written notice of non-objection to [New SRO] and will copy staff of the other RRs.

Appendix B
Oversight Reviews

The RRs will carry out periodic coordinated oversight reviews of [New SRO] for the purposes of: (i) evaluating whether selected regulatory processes are effective, efficient, and are applied consistently and fairly; and (ii) assessing compliance with the terms and conditions of recognition.

An RR may choose to participate in a coordinated review of a [New SRO] office depending on the functions carried out in that office, or may choose to rely on another RR for the review of a [New SRO] office. In cases where an RR chooses not to review the [New SRO] office in its jurisdiction, the other RRs may conduct a review of that [New SRO] office.

Each RR may also perform an independent review of [New SRO] to deal with significant and/or local issues. Any RR that intends to perform such a review will notify staff of the other RRs prior to conducting such a review.

The scope of the review will be determined by utilizing a risk-based methodology established and agreed upon by staff of the RRs.

When conducting a coordinated review, the Reviewing Regulators will use best efforts to adhere to the following within any timelines established among themselves:

1) The Reviewing Regulators will establish and agree on a work plan for the coordinated review that sets the target completion date for each step, including conducting the review, reviewing draft reports, confirming factual accuracy, translating and publishing the final report, and follow-up plans.

2) The coordinated review of [New SRO]'s offices will be conducted at the same time and, for each [New SRO] office, a Reviewing Regulator will be designated as the regulator who has overall responsibility for the review of that office.

3) The Reviewing Regulators will develop and use a uniform review program and uniform performance benchmarks to conduct the coordinated review and will ensure the review is appropriately staffed in their respective jurisdiction.

4) The Coordinators will, as needed, arrange for communication among the Reviewing Regulators during the course of a review, to discuss the progress of the work completed and to ensure appropriate consistency in the Reviewing Regulators' approach.

5) Each Reviewing Regulator will share with all other Reviewing Regulators the results of its review, including draft findings and, upon request, supporting materials.

6) Unless otherwise agreed upon, the Coordinators will draft a review report and share it among the Reviewing Regulators to ensure it meets all of their expectations and requirements, as applicable. The review report will:

   a) take into account the draft findings and comments of the Reviewing Regulators, and

   b) use a common set of criteria to rate the significance and urgency of findings.

7) If the Reviewing Regulators disagree on the content of the draft review report, the Reviewing Regulators will follow the process provided in section 12 of Appendix C of this MOU for resolution.

8) After the Reviewing Regulators are mutually satisfied with the draft review report, the Coordinators will forward the draft review report to [New SRO] to confirm factual accuracy.

9) [New SRO] will review the draft review report for factual accuracy and respond to the Reviewing Regulators with comments.

10) The Reviewing Regulators will consider [New SRO]'s comments and revise the review report as necessary.

11) The Coordinators will send the revised review report to [New SRO] for its formal response.

12) On receipt of [New SRO]'s formal response, the Reviewing Regulators will incorporate such formal response and any follow-up plans into the review report as applicable.

13) Each Reviewing Regulator will seek the necessary internal approval to publish the final review report, taking into account language translation needs where applicable.

14) When each Reviewing Regulator has obtained the necessary internal approvals, the Coordinators will, and the other Reviewing Regulators may, publish the final review report.

Appendix C
Joint Rule Review Protocol

1. Scope and purpose

The RRs have entered into this Protocol to establish uniform procedures for their review of and decision-making about Rule Changes proposed by [New SRO].

Any review of a new by-law, amendment to an existing by-law or revocation of an existing by-law proposed by [New SRO] will follow the process for review of and decision-making about Rule Changes set out in this Protocol, with the necessary adaptations.

2. Classifying Rule Changes

(a) **Classification**. [New SRO] will classify each proposed Rule Change as "housekeeping" or "public comment".

(b) **Housekeeping Rule Changes**. A "housekeeping" Rule Change is a Rule Change that has no material impact on investors, issuers, registrants, [New SRO], [New IPF] or the Canadian capital markets generally and that:

(i) makes necessary changes of an editorial nature (such as correcting a textual mistake or inaccurate cross-reference, correcting a translation, making a formatting change, or standardization of terminology),

(ii) changes the routine internal processes, practices, or administration of [New SRO],

(iii) is necessary to conform to applicable securities legislation, statutory or legal requirements, accounting or auditing standards, or to other [New SRO] Rules or by-laws (including those that the RRs have approved or non-objected to, but which [New SRO] has not yet made effective), or

(iv) establishes or changes a due, fee or other charge imposed by [New SRO] under a Rule that the RRs have previously approved or non-objected to.

(c) **Public comment Rule Changes**. A "public comment" Rule Change is any Rule Change that is not a housekeeping Rule Change.

(d) **RRs' disagreement with classification**. If staff of an RR thinks that [New SRO] incorrectly classified a proposed Rule Change as housekeeping, the RRs and [New SRO] will use best efforts to adhere to the following:

(i) Within 5 business days of the date of [New SRO]'s filing under section 3, staff of the RR who intends to disagree with the classification will

advise staff of the other RRs, in writing, that they intend to disagree and provide reasons for its intended disagreement.

(ii) Within 3 business days of receiving or sending a notice of disagreement, staff of the Coordinators will discuss the classification, and may arrange a conference call, with staff of the other RRs and, as applicable, [New SRO].

(iii) If disagreement with the classification still exists after any such discussion, staff of the Coordinators will notify [New SRO] of the disagreement, in writing, with a copy to staff of the other RRs within 10 business days of the date of [New SRO]'s filing.

(iv) If staff of the Coordinators send a notice of disagreement to [New SRO] under paragraph 2(d)(iii), [New SRO] will reclassify the proposed Rule Change as a public comment Rule Change or withdraw the proposed Rule Change by filing a written notice with staff of the RRs indicating that it will be withdrawing the Rule Change.

(v) If [New SRO] does not receive any such notice of disagreement within 10 business days of the date of [New SRO]'s filing, [New SRO] will assume that staff of the RRs agree with the classification.

3. Required filings

(a) **Language requirements**. [New SRO] will file the information required under this section concurrently in both English and French, accompanied with an attestation from a certified translator.

(b) **Filings for housekeeping Rule Changes**. [New SRO] will file the following information with staff of the RRs for each proposed housekeeping Rule Change:

(i) a cover letter that indicates the classification of the proposed Rule Change and the applicable provisions in subsection 2(b),

(ii) the Board resolution, including the date that the proposed Rule Change was approved and a statement that the Board has determined that the proposed Rule Change is in the public interest,

(iii) the text of the proposed Rule Change and, where applicable, a blacklined version showing the changes to an existing Rule, and

(iv) a notice for publication including:

(A) a brief description of the proposed Rule Change,

(B) the reasons for the housekeeping classification,

(C) the anticipated effective date of the proposed Rule Change,

(D) a statement as to whether the proposed Rule Change involves a Rule that [New SRO], its Members or Approved Persons must comply with in order to be exempted from a requirement of securities legislation and any applicable references to such requirement,

(E) confirmation that [New SRO] followed its established internal governance practices in approving the proposed Rule Change and considered the need for consequential amendments, and

(F) a statement as to whether the proposed Rule Change conflicts with applicable laws or the terms and conditions of [New SRO]'s recognition.

(c) **Filings for public comment Rule Changes**. [New SRO] will file the following information and data with staff of the RRs for each proposed public comment Rule Change:

(i) a cover letter that indicates the classification of the proposed Rule Change,

(ii) the Board resolution, including the date that the proposed Rule Change was approved, and a reasonable explanation of why the Board has determined that the proposed Rule Change is in the public interest,

(iii) the text of the proposed Rule Change, and, where applicable, a blacklined version showing the changes to an existing Rule, and

(iv) a notice for publication including:

(A) Information that must be included:

a. a concise statement, together with supporting analysis (including applicable quantitative analysis), of the nature, purpose and effect (including any regional-specific effect) of the proposed Rule Change,

b. an explanation as to how [New SRO] has taken the public interest into account when developing the Rule Change, why the proposed Rule Change is in the public interest, and the anticipated effects of the proposed Rule Change on investors,

issuers, registrants, [New SRO], [New IPF] and the Canadian capital markets generally,

c. a description of the Rule Change,

d. a description of the Rule-making process, including the context in which [New SRO] developed the proposed Rule Change, the process followed and the consultation process undertaken, including applicable stakeholder engagements, when developing the Rule Change,

e. the anticipated effective date of the proposed Rule Change,

f. a request for public comment together with details on how to submit comments within the stated comment period deadline, and a statement that [New SRO] will publish all comments received during the comment period on its public website, and

g. the items in subparagraphs 3(b)(iv)(D), (E) and (F).

(B) Information that must be included, if relevant:

a. where the proposed Rule Change requires investors, issuers, registrants, [New SRO], or [New IPF] to make technological systems changes, a description of the implications of the proposed Rule Change and, where possible, a discussion of material implementation issues and plans,

b. any issues considered and any alternative approaches considered, including the reasons for rejecting those alternative approaches, and

c. a reference to other jurisdictions including an indication as to whether another regulator in Canada, the United States or another jurisdiction has a comparable requirement or is contemplating making a comparable requirement and, if applicable, a comparison of the proposed Rule Change to the requirement of the other jurisdiction.

4. Review criteria

Without limiting the discretion of the RRs, the RRs agree that the following are factors that staff of the RRs should consider when reviewing proposed Rule Changes:

(a) whether a proposed Rule Change is in the public interest,

(b) whether [New SRO] has provided sufficient analysis of the nature, purpose and effect of a proposed Rule Change, and

(c) whether the proposed Rule Change conflicts with applicable laws or the terms and conditions of [New SRO]'s recognition.

5. Review and approval process for housekeeping Rule Changes

(a) **Confirming receipt**. Upon receipt of the materials filed under subsection 3(b), staff of the Coordinators will, as soon as practicable, send written confirmation of receipt of the proposed housekeeping Rule Change to [New SRO], with a copy to staff of the other RRs.

(b) **Approval**. Except where a notice of disagreement has been sent to [New SRO] in accordance with paragraph 2(d)(iii), the proposed Rule Change will be deemed approved or non-objected to on the eleventh business day following the date of [New SRO]'s filing under section 3.

6. Review process for public comment Rule Changes

(a) **Confirming receipt**. Upon receipt of the materials filed under subsection 3(c), staff of the Coordinators will, as soon as practicable, send written confirmation of receipt of the proposed public comment Rule Change to [New SRO], with a copy to staff of the other RRs.

(b) **Publication and public comment period**. As soon as practicable, staff of the Coordinators and [New SRO] will, and staff of the other RRs may:

(i) coordinate a publication date among themselves, and

(ii) publish on their respective public websites or bulletin the materials referred to in paragraphs 3(c)(iii) and (iv) for the comment period recommended by [New SRO], commencing on the date the proposed public comment Rule Change appears on the public website or in the bulletin of the Coordinators.

(c) **Publishing and responding to public comments**. Within 3 business days of the end of the subsection 6(b) comment period, [New SRO] will publish any public comments on its public website, if it has not already done so. [New SRO] will also prepare a summary of public comments and responses to those public comments, if any, and send them to staff of the RRs within any timelines established by staff of the RRs.

(d) **RR review**. After the subsection 6(b) comment period has ended, and, if applicable, [New SRO] has provided the summary and responses required by subsection 6(c), staff of the RRs will, in writing, provide any significant

comments to staff of the other RRs within any timelines established among themselves.

(e) **RRs have no comments**. If staff of the Coordinators do not receive and do not have any significant comments within the period provided for under subsection 6(d), staff of the RRs will be deemed not to have any comments and proceed immediately to the approval or non-objection process in section 8.

(f) **RRs have comments**. If staff of the Coordinators receive or have significant comments within the period provided for under subsection 6(d), staff of the RRs and, as applicable, [New SRO] will use best efforts to adhere to the following process using timelines established among themselves:

(i) After the end of the period provided for under subsection 6(d), staff of the Coordinators will prepare and send to staff of the other RRs a draft comment letter that incorporates their own significant comments and the significant comments raised by staff of the other RRs and may, if deemed necessary, identify different views among staff of the RRs.

(ii) Staff of the RRs will provide any significant comments on the draft comment letter, in writing, to staff of the Coordinators and the other RRs; and if staff of the Coordinators do not receive any such comments within the timelines agreed upon, staff of the other RRs will be deemed not to have any comments.

(iii) Following the other RRs' response (or deemed response), staff of the Coordinators will consolidate all comments received and, when finalized to the satisfaction of staff of the RRs, send the comment letter to [New SRO], with a copy to staff of the other RRs.

(iv) [New SRO] will respond, in writing, to the comment letter sent by staff of the Coordinators, with a copy to staff of the other RRs.

(v) After receiving [New SRO]'s response, staff of the RRs will provide any significant comments, in writing, to staff of the other RRs; if staff of the Coordinators do not receive and do not have any such comments within the timelines agreed upon, staff of the RRs will:

(A) be deemed not to have any comments, and

(B) proceed immediately to the approval or non-objection process in section 8.

(vi) Staff of the RRs and, as applicable, [New SRO] will follow the process in paragraphs 6(f)(i) to (v) when staff of the RRs have significant comments on [New SRO]'s response to any comment letter.

(vii) Staff of the Coordinators will attempt to resolve any issues that staff of the RRs have raised on a timely basis and will consult with staff of the other RRs or [New SRO], as needed.

(viii) If staff of the RRs disagree about the substantive content of the comment letter in paragraph 6(f)(i) or whether to recommend approval of or non-objection to the Rule Change, staff of the Coordinators will invoke section 12.

(ix) If [New SRO] fails to respond to comments of staff of the RRs within 120 days of receipt of the most recent comment letter from staff of the RRs (or such other time agreed upon by staff of the RRs), [New SRO] may withdraw the Rule Change in accordance with section 13 or staff of the RRs will, if they agree among themselves to do so in writing, recommend that their respective decision makers object to or not approve the Rule Change.

7. Revising and republishing public comment Rule Changes

(a) **Language requirements.** If, subsequent to its publication for comment, [New SRO] revises a public comment Rule Change, [New SRO] will file any such revision, which will include, as applicable, a blacklined version to the original published version, a blacklined version to the existing Rule, and the text of the revised Rule Change concurrently in both English and French, accompanied with an attestation from a certified translator.

(b) **Revising Rule Changes**. If such a revision changes the Rule Change's substance or effect in a material way, staff of the Coordinators may, in consultation with [New SRO] and staff of the other RRs, require the revised Rule Change to be republished for an additional comment period. Upon republication, the previously published Rule Change will be superseded.

(c) **Published documents**. If a public comment Rule Change is republished, the revised request for comments will include, as applicable, the information filed under subsection 7(a), the date of Board approval (if different from the original published version), [New SRO]'s summary of public comments received and responses for the previous request for comments, together with an explanation of the revisions to the Rule Change and the supporting rationale for the revisions, including why the revisions are in the public interest.

(d) **Applicable provisions**. Any republished public comment Rule Change will be subject to all provisions in this Protocol applicable to public comment Rule Changes, except where otherwise provided for in this Protocol.

8. Approval process for public comment Rule Changes

(a) **Coordinators seek approval**. Staff of the Coordinators will use their best efforts to seek approval of or non-objection to the Rule Change within 30 business days of the end of the review process set out in section 6.

(b) **Coordinators circulate documents**. After the Coordinators make a decision about a Rule Change, staff of the Coordinators will promptly circulate to staff of the other RRs applicable documentation relating to the Coordinators' decision.

(c) **Other RRs seek approval**. Staff of the other RRs will use their best efforts to seek approval or non-objection within 30 business days of receipt of applicable documentation from staff of the Coordinators.

(d) **Other RRs communicate decision to Coordinators**. Staff of each RR will promptly inform staff of the Coordinators in writing after a decision about the Rule Change has been made.

(e) **Coordinators communicate decision to [New SRO]**. Staff of the Coordinators will promptly communicate to [New SRO], in writing, the decision about the Rule Change, including any conditions, upon receipt of notification of the other RRs' decisions.

9. Effective date of Rule Changes

(a) **Public comment Rule Changes**. Public comment Rule Changes (other than Rule Changes implemented under section 11) will be effective on the later of:

(i) the date the Coordinators publish the notice of approval or non-objection in accordance with subsection 10(a), and

(ii) the date designated by [New SRO] under subparagraph 3(c)(iv)(A) or the date as determined by [New SRO].

(b) **Housekeeping Rule Changes**. Housekeeping Rule Changes will be effective on the later of:

(i) the date of deemed approval or non-objection in accordance with subsection 5(b), and

(ii) the date designated by [New SRO] under subparagraph 3(b)(iv)(C).

(c) **Revisions to the effective date of a Rule Change**. [New SRO] will advise staff of the RRs in writing if it has not made a Rule Change effective by the date designated by [New SRO] under subsection 9(a), and will include the following information:

(i) the reasons it has not yet made the Rule Change effective,

(ii) [New SRO]'s projected timeline for making the Rule Change effective, and

(iii) the impact on the public interest of not making the Rule Change effective by the date designated by [New SRO] under subsection 9(a).

10. Publishing notice of approval

(a) **Public comment Rule Changes**. For any public comment Rule Change, staff of the Coordinators and [New SRO] will both publish a notice of approval of or non-objection on their respective public websites, together with:

(i) if applicable, [New SRO]'s summary of comments received and responses,

(ii) if changes were made to the version published for public comment, a blacklined version of the revised Rule Change compared to the previously published public comment Rule Change, and

(iii) if requested, a blacklined version to the existing Rule.

(b) **Housekeeping Rule Changes**. For any housekeeping Rule Change, staff of the Coordinators will prepare a notice of deemed approval or non-objection and both the Coordinators and [New SRO] will publish the notice, together with the materials referred to in paragraphs 3(b)(iii) and (iv), on their respective public websites.

(c) **Publication by other RRs**. Any other RRs may publish notices of approval at their own discretion.

11. Immediate implementation

(a) **Criteria for immediate implementation**. If [New SRO] identifies an urgent need to implement a proposed public comment Rule Change because of a substantial risk of material harm to investors, issuers, registrants, other market participants, [New SRO], [New IPF] or the Canadian capital markets generally, [New SRO] may make the proposed public comment Rule Change effective immediately, subject to subsection 11(d), and provided that:

(i) [New SRO] provides staff of each RR with written notice of its intention to rely upon this procedure at least 10 business days before the Board considers the proposed public comment Rule Change for approval, and

(ii) [New SRO]'s written notice in paragraph 11(a)(i) includes:

(A) the date on which [New SRO] intends the proposed public comment Rule Change to be effective, and

(B) an analysis in support of the need for immediate implementation of the proposed public comment Rule Change.

(b) **Notice of disagreement**. If staff of an RR does not agree that immediate implementation is necessary, staff of the RRs and, as applicable, [New SRO] will use best efforts to adhere to the following:

(i) Staff of each RR which disagrees with the need for immediate implementation will, within 5 business days after [New SRO] provides notice under subsection 11(a), advise staff of the other RRs in writing that they disagree and provide the reasons for its disagreement.

(ii) Staff of the Coordinators will promptly notify [New SRO] in writing of the disagreement.

(iii) Staff of [New SRO] and staff of the RRs will discuss and attempt to resolve any concerns raised on a timely basis but, if the concerns are not resolved to the satisfaction of staff of all RRs, [New SRO] cannot immediately implement the proposed public comment Rule Change.

(c) **Notice of no disagreement**. Where there is no notice of disagreement under and within the timelines set out in paragraph 11(b)(i), or where concerns have been resolved under paragraph 11(b)(iii), staff of the Coordinators will immediately provide written notice of no disagreement to [New SRO], with a copy to staff of the other RRs, indicating that it may now seek Board approval to immediately implement the proposed public comment Rule Change.

(d) **Effective date**. Proposed public comment Rule Changes that [New SRO] immediately implements in accordance with section 11 will be effective on the later of the following:

(i) the date the Board approves the Rule Change, and

(ii) the date designated by [New SRO] in its written notice to staff of the RRs.

(e) **Subsequent review of Rule Change**. A public comment Rule Change that is implemented immediately will subsequently be published, reviewed, and approved or non-objected to in accordance with the applicable provisions of this Protocol.

(f) **Subsequent disapproval of Rule Change**. If the RRs subsequently object to or do not approve a public comment Rule Change that [New SRO] immediately implemented, [New SRO] will promptly repeal the public comment Rule Change and inform its Members of the RRs' decision.

12. Disagreements

If any disagreement, either among the RRs or between the RRs and [New SRO], about a matter arising out of or relating to this Protocol cannot be resolved through staff discussions, staff of the RRs will use best efforts to adhere to the following using timelines established among themselves:

(a) If staff of one of the RRs notifies the other RRs that in their view there is a disagreement that cannot be resolved through staff discussions, then staff of the Coordinators will arrange for senior staff of the RRs to discuss the issues and attempt to reach a consensus.

(b) If, following such discussions, a consensus is not reached, staff of the Coordinators will escalate the disagreement as applicable and, ultimately, to the RRs' Chairs or other senior executives of the RRs or such other process as agreed to by staff of the RRs.

(c) If, following such escalation, a consensus is not reached, [New SRO] may withdraw the Rule Change in accordance with section 13 or staff of the RRs will recommend that their respective decision makers object to or not approve the Rule Change.

13. Withdrawing Rule Changes

(a) **Filing notice of withdrawal**. If [New SRO] withdraws a proposed public comment Rule Change that the RRs have not yet approved or non-objected to, [New SRO] will file with staff of the RRs a written notice indicating that it will be withdrawing the Rule Change.

(b) **Contents of notice of withdrawal**. The written notice in subsection 13(a) must contain:

(i) the reason [New SRO] submitted the proposed Rule Change,

(ii) any date that the Board approved the proposed Rule Change,

(iii) any prior publication dates,

(iv) the Board resolution supporting the withdrawal of the proposed Rule Change, if applicable,

(v) the reasons [New SRO] is withdrawing the proposed Rule Change, and

(vi) the impact of withdrawing the proposed Rule Change on the public interest.

(c) **Publishing notice of withdrawal**. Where the proposed Rule Change being withdrawn had previously been published for comment under subsection 6(b), staff of the Coordinators and [New SRO] will both publish a notice on their public websites stating that [New SRO] will be withdrawing the proposed Rule Change, together with the reasons [New SRO] is withdrawing the proposed Rule Change.

14. Reviewing and amending Protocol

Staff of the RRs will, when they agree it is necessary to do so, conduct a joint review of the operation of this Protocol in order to identify issues relating to:

(a) the effectiveness of this Protocol,

(b) the continuing appropriateness of the timelines and other requirements set out in this Protocol, and

(c) any necessary or desirable amendments to this Protocol.

15. Waiving or varying Appendix C

(a) **[New SRO] request**. [New SRO] may file a written request with the RRs to waive or vary any part of this Protocol and, in such a case, the RRs will use best efforts to adhere to the following using timelines established among themselves:

(i) An RR who objects to the granting of the waiver or variation will, in writing, notify the other RRs of its objection, together with the reasons for its objection.

(ii) If the Coordinators do not receive or send any notice of objection within the agreed upon timelines, the RRs are deemed to not object to the waiver or variation.

(iii) The Coordinators will provide written notice to [New SRO] as to whether or not the waiver or variation has been granted.

(b) **RR request**. The RRs may waive or vary any part of this Protocol if all of the RRs agree in writing to such waiver or variation.

(c) **General**. A waiver or variation may be specific or general and may be made for a time or for all time as mutually agreed to by the RRs.

16. Publishing materials

If staff of the Coordinators publish any materials under this Protocol, staff of the other RRs may also publish the same materials, and in such a case, staff of the Coordinators will coordinate the publication date with staff of the other RRs.