



# Supervisor Exam Syllabus

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# Supervisor Exam Overview

## Exam parameters

<b>Exams</b>	1 paper
<b>Exam format</b>	Proctored (remote or in person)
<b>Exam duration</b>	3 hours
<b>Question format</b>	Multiple choice: <ul style="list-style-type: none"><li>• 60 Standard</li><li>• 30 Item set</li></ul>
<b>Questions per exam</b>	90
<b>Attempts allowed per exam</b>	3

## Question weighting

<b>Element</b>	<b>Indicative Qs</b>
<b>1</b> General regulatory framework	10
<b>2</b> Supervisory structure: Investment Dealer responsibilities	10
<b>3</b> Business and operations	9
<b>4</b> Account approvals	20
<b>5</b> Account activity	15
<b>6</b> Activities of Approved Persons	8
<b>7</b> Trading and market rules	6
<b>8</b> Advertisements, sales literature and communications and research reports	7
<b>9</b> Risks associated with Investment Dealer activity and registered locations	5





# Syllabus key

The syllabus is divided into a series of learning outcomes. Each learning outcome expects the candidate to remember, understand, apply or analyze information. These expectations are set out below.



**Remember** requires the candidate to recall information such as facts, rules and principles. Associated terms include describe, identify, recognize and state.

For example:

- Which of the following is an enforcement power of the Canadian Securities Administrators?
- What is the objective of the Canadian Investor Protection Fund?
- Who is responsible for the management of fiscal policy in Canada?



**Understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle. Associated terms include describe, explain, interpret, recognize and select.

For example:

- Which of the following best describes the role of the Supervisor in an Investment Dealer?
- Why might a person grant powers of attorney for their financial affairs?
- Which of the following procedures is required to ensure adequate supervision of managed accounts?



**Apply** requires the candidate to use information in specific situations. Associated terms include calculate, demonstrate, implement and use.

For example:

- Which of the following demonstrates compliance with the know-your-client (KYC) rule for retail investors?
- A Registered Representative has reported to their Supervisor a trading pattern that looks unusual for the client they are representing. What should the Supervisor do next?
- When supervising a client's derivatives trading, which of the following measures can be used in the last 10 days before expiry to minimize risk of the client defaulting on their obligations?



**Analyze** requires the candidate to review information and draw conclusions or make connections. Associated terms include compare, contrast, differentiate and examine.

For example:

- An Investment Dealer has appointed more than one Supervisor to be responsible for reviewing and approving research reports. The policies and procedures set out a prohibition on the Investment Dealer expressing an opinion on its own securities but allows opinions on its holding company. They also state the minimum disclosures that will be made and the standards of conduct for the analysts. Which of the following is true of these policies and procedures?
- A Supervisor is reviewing the information collected by a Registered Representative from their client. The information has indicated that the client is seeking long-term growth with minimal risk. The account to be opened is a cash account and the client is concerned about the tax implications. Based on this information alone, which of the following indicates the product and explanation that best meets the client's needs?
- A client chooses an order execution only (OEO) account at an Investment Dealer. What impact will this choice have on a Supervisor's interaction compared to choosing a managed account?



## Element 1: General regulatory framework

**Summary:** This element begins with an understanding of the regulators in the Canadian investment services and the protections offered to consumers by way of legislation, such as the Criminal Code and the Proceeds of Crime (Money Laundering) and Terrorism Financing Act. Element 1 also requires the Supervisor to apply procedures to client complaints handling and critically analyze conduct that could breach the Canadian Investment Regulatory Organization (CIRO) standards of conduct and conflicts of interest rules.

- 1.1** Understand the role and authority of the Canadian Securities Administrators (CSA) and provincial/territorial securities and derivatives regulators. Consider the:
  - Jurisdiction of the CSA
  - Mandate and objectives of the CSA
  - Purpose and implication of different forms of legislation:
    - National Instruments (NI)
    - Multilateral Instruments (MI)
    - National policies
    - Staff Notices
    - Companion Policies (CP)
  - Investment Dealer and individual registration requirements
  - Enforcement powers
- 1.2** Understand the role and authority of CIRO. Consider the:
  - Jurisdiction of CIRO
  - Purpose of recognition orders and delegated authorities
  - Mandate and objectives of CIRO
  - Investment Dealer and individual registration requirements
  - Investment Dealer and Partially Consolidated (IDPC) Rules
  - Universal Market Integrity Rules (UMIR)
  - Role and implications of rules, guidance notes, forms and supporting schedules, including:
    - Standards of conduct
    - Sales practices
    - External communications
  - Enforcement powers of CIRO
- 1.3** Understand the requirement for Investment Dealer registration and individual approval requirements and the role of CSA and CIRO in this process.
- 1.4** Understand the role and authority of exchanges and other marketplaces. Consider:
  - Exchanges
  - Alternative Trading Systems (ATS)
  - Crypto-Asset Trading Platforms (CTPs)
  - Foreign Organized Regulated Markets (FORM)
- 1.5** Understand the role and authority of clearing agencies. Consider:
  - Canadian Depository for Securities Limited (CDS)
  - Canadian Derivatives Clearing Corporation (CDCC)
- 1.6** Understand the role of the Canadian Investor Protection Fund (CIPF):
  - Purpose and objective
  - Funding requirements by Investment Dealers
  - Governance structure
  - Role of CIPF in an Investment Dealer's bankruptcy/insolvency, including pooling of client assets
- 1.7** Understand the function and purpose of other financial regulators and agencies. Consider:
  - Financial Services Regulatory Authority of Ontario (FSRA)
  - Bank of Canada
  - RCMP Integrated Market Enforcement Teams (IMET)
  - Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)
  - Office of the Superintendent of Financial Institutions (OSFI)
  - Federal and provincial privacy commissioners
- 1.8** Understand the purpose and implications on the investment industry of the following federal statutes:
  - Bank Act
    - Ensure stability and integrity
    - Protect consumers
    - Promote competition
  - Bankruptcy and Insolvency Act, Part XII – Bankruptcy of a Securities Firm
- 1.9** Understand the purpose and implications of the Criminal Code and its application to financial crimes. Consider:
  - Fraud
  - Theft
  - Theft by person holding power of attorney
  - Misappropriation of money under direction
  - False statement or false pretenses
  - Obtaining execution of security by fraud
  - Forgery
  - Uttering a forged document
  - False prospectus
  - Organized crime offences
  - Illegal insider trading
- Ombudsman for Banking Services and Investments (OBSI)
- US and other foreign securities and derivatives regulatory authorities
  - US: Securities Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), Commodity Futures Trading Commission (CFTC), National Futures Association (NFA)



**1.10** Understand the purpose and implications of the Proceeds of Crime (Money Laundering) and Terrorism Financing Act (PCMLTFA) and Regulations (PCMLTFA Regulations), including:

- Stages of money laundering
- Compliance program requirements
- Anti-money laundering policies and procedures
- Client information and due diligence requirements
- Enterprise risk assessment and indicators
- Employee training
- Business relationship record-keeping

**1.11** Understand the purpose and implications of other applicable laws. Consider:

- Canadian Anti-Spam Legislation (CASL)
  - Reducing spam
  - Enhancing privacy
  - Promoting electronic commerce
  - Deterring malicious activities
  - Encouraging compliance and accountability
- Confidentiality agreements/non-disclosure agreements (NDAs)
  - Protecting proprietary information
  - Legal recourse
  - Facilitating business relationships
  - Maintaining competitive advantage
- Personal Information Protection and Electronic Documents Act (PIPEDA)
  - Protecting personal information
  - Fair information principles
- Rules for public company disclosure and the statutory rights of shareholders

**1.12** Understand the Investment Dealer's obligations to clients and others. Consider:

- Legislative
- Contractual
- Organizational

**1.13** Apply the client complaint requirements to specific situations relevant to Supervisors. Consider:

- Reporting requirements and failure to report
- Requirement to commence an internal investigation
- Settlement agreements
- Complaints policies and procedures (client-related or otherwise)
- Role and requirements of CIRO, OBSI and provincial/territorial regulators
- Role of a designated complaints officer for client complaints
- Alternative complaint resolution processes

**1.14** Understand the recourse available to dissatisfied clients, including OBSI, CIRO arbitration and litigation.

**1.15** Understand situations that may require CIRO whistleblower service for non-client account matters, including:

- Misconduct or illegal activity within an organization
- Potential systemic wrongdoing
- Potential securities frauds

**1.16** Understand the consequences and liabilities for settlement agreements with clients without Investment Dealer approval and the penalties that can be applied by regulators.

**1.17** Analyze situations for Supervisors that involve the role of ethics and personal integrity in the securities industry. Consider:

- How ethical behaviour relates to compliance with rules
  - Proper care
  - Independent professional judgment
  - Trustworthiness and integrity
  - Honesty and fairness
  - Professionalism
- CIRO standards of conduct
  - High standards of ethics and conduct
  - Acting openly and fairly
  - Not acting in a way that would be considered unbecoming or detrimental to public interest
  - Acting in accordance with the just and equitable principles of trade
  - Conduct that may contravene the standards of conduct





**1.18** Analyze situations for Supervisors that involve the role of ethics and integrity in corporate governance. Consider:

- Transparency
- Dealing with compensation conflicts
- Oversight and accountability
- Training and awareness

**1.19** Understand the consequences and risks of unethical behaviour. Consider:

- Legal consequences
- Reputational damage
- Regulatory scrutiny
- Employee morale and turnover
- Client confidence and turnover

**1.20** Apply to specific situations CIRO requirements relating to conflicts of interest. Consider:

- Obligations to avoid, disclose, manage and resolve material conflicts
- Applicable standards of care, ethics and independent supervision requirements for producing Supervisors
- Identification of potential and existing conflicts, including:
  - Compensatory
  - Managerial
  - Ownership
- Protection and proper use of corporate assets and opportunities
- Confidentiality of corporate, client and third-party information
- Fair dealing with securities holders, clients, suppliers, competitors and employees

**1.21** Analyze situations that may lead to the prohibition, approval, disclosure and action requirements regarding outside activities and positions of influence, including:

- Existing and reasonably foreseeable material conflicts of interest
- Written disclosure, where applicable
- Reporting obligations, where applicable

**1.22** Apply to specific situations the prohibition and exemptions regarding personal financial dealings with clients. Consider:

- Accepting any consideration
- Settlement agreements
- Borrowing from clients
- Lending to clients
- Control or authority

**1.23** Understand the processes used for the containment of confidential or material non-public information, including:

- Those exposed to receiving confidential information
  - Investment banking and corporate finance staff
  - Other staff exposed to confidential information through, for example:
    - Trading by issuers
    - Research departments
    - Relationships with corporate insiders
- Information barriers and firewalls
- Grey and restricted list
- Cybersecurity





## Element 2: Supervisory structure: Investment Dealer responsibilities

**Summary:** Element 2 requires the Supervisor to understand the obligations of an Investment Dealer when providing products and services to clients, including the role of Executives and the compliance department. Supervisors will also be required to analyze and apply to specific situations their general responsibilities, including the role of delegation and automation in supervision.

- 2.1** Understand the requirement for an Investment Dealer to establish a supervisory system to supervise the activities of all its employees and Approved Persons to ensure compliance with CIRO Rules and securities laws. The supervisory system, at a minimum, must:
- Have policies and procedures designed to address supervision of its employees and Approved Persons
  - Have policies and procedures that provide a reasonable assurance of compliance with CIRO requirements, securities laws and applicable laws
  - Ensure all supervisory policies and procedures are in writing and amended within a reasonable time after changes to CIRO rules or securities laws are made
  - Communicate its policies and procedures to all relevant employees and Approved Persons and must:
    - Provide sales practices policies and procedures relevant to their functions
    - Obtain acknowledgements that such policies have been read and understood
    - Provide introductory and continuing education on the Investment Dealers' policies and procedures and any relevant changes
    - Communicate information relating to CIRO rules and applicable laws to all sales employees and other Approved Persons
    - Have policies and procedures to address method and timing of the distribution of compliance related notices
    - Promptly communicate changes to all relevant employees and Approved Persons
    - Have procedures to provide reasonable assurance that each employee and Approved Person understands their responsibilities under the policies and procedures

- Ensure an annual supervisory review of financial and operational policies and procedures
- Ensure Supervisors understand the Investment Dealer's books and records obligation

- 2.2** Understand the product, due diligence obligations and exemptions, including:
- Applicable policies and procedures
  - Assessment of relevant aspects of products the Investment Dealer makes available
  - Approval of products to be made available to clients
  - Monitoring the products made available
  - Exemptions for accounts held by carrying brokers, trade execution, clearing, settlement or custody service only Investment Dealers

- 2.3** Understand the responsibility of Executives in the oversight of an Investment Dealer's activities. Consider:
- CIRO requirements to designate appropriate Executives
  - Oversight of relevant policies and procedures
  - Supervision and direction of the Investment Dealer's activities, its employees and Approved Persons to provide reasonable assurance of compliance with CIRO requirements and securities laws
  - Accountability to Directors for establishing a supervisory system
  - Reporting requirements for the Chief Compliance Officer (CCO) and Chief Financial Officer (CFO) to the Board





**2.4** Understand an Executive's responsibility for significant areas of risk.

Consider:

- Financial
- Operational
- Corporate finance
- Trading
- Wealth management
- Research

**2.5** Understand the implications of internal and external audits on the Investment Dealer.

**2.6** Analyze situations that reflect common areas of regulatory action (including enforcement action) by CIRO against one or more of an Investment Dealer's Approved Persons. Consider:

- Violating securities and derivatives laws, regulations or CIRO requirements
- Aiding and abetting another in such violations
- Failing to satisfy applicable supervisory obligations

**2.7** Understand the role of the compliance department, including:

- Setting policies and procedures to ensure compliance with applicable requirements
- Identifying, assessing, advising on, acting on, communicating, monitoring, escalating and reporting on the Investment Dealer's compliance with regulatory requirements and the Investment Dealer's own policies and procedures
- CIRO expectations of the compliance functions at an Investment Dealer and the role, responsibility and accountability of all Investment Dealer personnel
- Escalation responsibility

**2.8** Analyze the scope of the supervision requirements and the Supervisor's authority to act on the Investment Dealer's behalf. Consider:

- Providing reasonable assurance of compliance with CIRO requirements, securities and derivatives laws, regulations and other applicable laws

- Oversight of employees and Approved Persons in accordance with

- Assigned supervisory responsibilities, including:
  - Operation of account types
  - Oversight of shared office premises
  - Oversight of sales practices
  - Method, timing and distribution of compliance-related notices
- The Investment Dealers policies and procedures

- Requirement for authority of Supervisors

- Situations when client records may be amended and controls for accessing and amending client records

**2.9** Apply the supervisory record-keeping requirements and record retentions periods to specific situations relevant to a Supervisor. Consider:

- List of Supervisors, applicable qualifications, specific responsibilities and dates of designation
- Supervisory reports
- Identification of compliance issues
- Terms of delegation and authority for Supervisors

**2.10** Understand documented controls for delegation and apply those controls to specific situations relevant to a Supervisor. Consider:

- Detailed policies and procedures which lay out how the delegation works and to whom the tasks and activities have been delegated
- Maintain records of delegated tasks
- Restrictions on delegation:
  - Proficiency of the delegate
  - Prohibitions on delegation
  - Retention of responsibility by the delegator
- Processes for escalating any significant issues to the delegator
- A list of factors that trigger a review by the delegator
- Examination of the delegate's reviews to ensure they are following applicable policies and procedures and to ensure that they are recommending items for approval that would have been approved by the delegator

- Regular reports from the delegate to the delegator

- Regular (at minimum annual) reviews of the delegation process, with revisions to policies and procedures as necessary

**2.11** Understand the role of automation. Consider:

- How the automation process works
- The Supervisor's role and responsibilities
- What tasks and activities can and cannot be automated

**2.12** Understand the Investment Dealer's controls, policies and procedures for automation processes. Consider:

- Factors that may trigger a manual review
  - Applicant not being an individual
  - Applicant not reaching an age of majority
  - Trading authorization being used
  - Applicant applying to use derivatives trading strategies and not having an appropriate level of knowledge and trading experience
  - Applicant being an insider
  - Applicant being a Politically Exposed Person (PEP)
- Appropriate periodic testing and auditing to ensure automated process is functioning as designed



## Element 3: Specific supervision responsibilities in relation to the Investment Dealer business and operations

**Summary:** In this section, the Supervisor needs to understand how an Investment Dealer's supervisory structure can change depending on its business model. Element 3 also requires the Supervisor to analyze supervisory risks associated with different account, products and compensation structures.

- 3.1** Understand the Investment Dealer's responsibility to implement a supervisory system relevant to the scope and complexity of the business. Consider:
- Policies and procedures specific to Investment Dealer's supervision systems
    - The Supervisor's responsibility to consider the effectiveness of these
  - Responsibility to appoint as many Supervisors as needed to properly supervise the activities of its employees and Approved Persons:
    - The need for Supervisors to escalate concerns that could lead to:
      - Non-compliance
      - The inability to properly supervise
  - Investment Dealer's business model, including:
    - Types of products traded and offered
    - Type of trading the Investment Dealer and its Approved Persons engage in
    - Procedures to conduct due diligence on new products and services and the ongoing risk assessment of existing products and services
    - Location of the Investment Dealer's Supervisors and other Approved Persons
    - Different types of Supervisors and their functions and responsibilities
- 3.2** Understand the relationship between an Investment Dealer's supervisory system and its internal controls.
- 3.3** Understand the risks, opportunities and requirements for the Investment Dealer associated with each of the following business models:
- Advisory, including:
    - Role and responsibilities of Approved Persons
    - Employment arrangements
    - Principal Agent versus Employer/Employee
  - Portfolio management
    - Managed account model, including role and responsibilities for Portfolio Managers and Associate Portfolio Managers
    - Online advice, including:
      - Operations, regulatory obligations and product limitations
      - Product limits such as exchange-traded funds (ETFs)
      - Role and responsibility of Approved Persons
    - Order Execution Only (OEO) account model, including:
      - Role and responsibilities of Approved Persons
      - Tools utilized at the Investment Dealer and available to clients
      - Direct Electronic Access (DEA)
      - Contracts for Difference (CFDs)
- 3.4** Understand the supervisory risks associated with each of the following client types:
- Retail
  - Institutional
- 3.5** Analyze the supervisory risks associated with each of the following accounts for both retail and institutional clients as applicable. Consider:
- Advisory accounts
  - In-house managed accounts
  - Third-party managed accounts
  - Discretionary accounts
  - Fee-based (non-managed)/wrap accounts
  - Tax deferred accounts
  - Margin accounts
  - Direct Electronic Access (DEA)
  - Delivery Against Payment (DAP)
  - Cash on Delivery (COD)
  - Receipt Against Payment (RAP) settlement options
- 3.6** Analyze the supervisory risks associated with each of the following basic types of securities:
- Equities
  - Mutual funds and ETFs
  - Fixed income products
- 3.7** Analyze the supervisory risks associated with each of the following complex types of securities/products:
- Leveraged and inverse ETFs
  - Structured products
  - Asset-backed securities
  - Specialized (e.g. cryptocurrency)
- 3.8** Analyze the supervisory risks associated with each of the following types of derivatives:
- Options
  - Futures contract options
  - Futures
  - Forwards
  - Swaps
  - CFDs
  - Other similar derivatives as described by CIRO
- 3.9** Analyze the supervisory risks associated with each of the following compensation structures. Consider:
- Commission-based
  - Fee-based
- 3.10** Understand the supervisory risks associated with negotiated flat fees and referral fees.



## Element 4: Specific supervision responsibilities in relation to account approvals

**Summary:** Element 4 requires the Supervisor to understand the requirements for account approvals for a range of accounts, including order execution only (OEO) accounts, discretionary accounts, managed accounts and derivatives accounts. Supervisors will need to apply many of these requirements to specific situations relating to account opening.

### 4.1 Understand account approval requirements. Consider:

- Collection of client account records
- Prescribed timelines
- Business day approval requirements
- Updates and changes
- Addressing conflicts of interest
- Non-client account requirements

### 4.2 Understand the considerations relating to account approvals for institutional client:

- Definition of institutional client
- Circumstances where a qualifying hedger can be classified as an institutional client
- Determination undertaken to classify an institutional client as a hedger
- Ensure client qualifies as an institutional client
- Supervisory requirements for institutional clients who are not exempt from suitability obligations

### 4.3 Understand the account appropriateness requirements, including:

- Putting prospective client's interests first
- Appropriate scope and selection of products, services and account relationships to which the client has access

### 4.4 Understand the client account records requirements, including:

- Documentation supporting the conclusion that the client's identity has been verified
- Documentation supporting the account appropriateness assessment
- Know-your-client (KYC) information collected in accordance with CIRO requirements
- Client's account application

### 4.5 Understand the purpose and content of the Relationship Disclosure, including:

- Products, services and account types that the client can access at the Investment Dealer, including fee-based, leverage and margin accounts
- Limitations of products, services and account types offered at the Investment Dealer, where applicable
- Fees and guidelines for compensation and relevant costs
- Conditions under which the client's account will be maintained
- Wealth management process and its impact on investment decisions
- Investment performance benchmarks
- Impact of fees, turnover and taxes on managed product returns
- Client relationship model
- Systematic approaches to investment management

### 4.6 Understand the leverage risk disclosure statement. Consider:

- When it is required
- Its purpose
- Its content

### 4.7 Understand the purpose and content of the margin account agreement. Consider:

- Client's obligation to pay their indebtedness to the Investment Dealer and to maintain adequate margin
- Client's obligation to pay interest on debit balances in their account
- Investment Dealer's right to raise money on and pledge assets held in the client's account
- Extent to which the Investment Dealer 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





- Investment Dealer's right to sell assets in the client's account and make purchases to cover short sales
- Nature of prior notice, where applicable and the client's obligations to remedy any deficiency
- Extent of the Investment Dealer's right, if any, to use a security in the client's account for delivery against a short sale
- Extent to which the Investment Dealer 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 Investment Dealer, a Partner or Director
- Extent of the Investment Dealer's right to use assets in the client's account and to hold them as collateral for the client's debt
- Investment Dealer's obligation to carry out all transactions in accordance with CIRO requirements and, where applicable, the requirements of the marketplace on which the transaction has been executed

**4.8** Understand the disclosures in relation to the Investment Dealer in the derivatives trading agreement. Consider:

- Time periods during which the Investment Dealer accepts orders for execution
- Investment Dealer's rights to:
  - Exercise discretion in accepting orders
  - Impose trading or position limits or closeout positions under specified conditions
  - Use client free credit balances within its own business or to cover debits in the same or other accounts
  - Use client account assets as collateral for the client's debit and position obligations
  - Raise money on and pledge assets held in the client's account
- Conditions under which the Investment Dealer may apply the client's funds, securities or other property in the account for any other accounts of the client to satisfy outstanding debts or margin calls
- Investment Dealer's obligation to:
  - Provide information to regulators regarding position limit, exercise limit requirements and reporting derivatives positions or derivative transactions related data
  - Obtain client consent before the Investment Dealer may take the other side to the client's transaction and document whether the client provides such consent

- Address situations when errors and omissions occur
- If discretionary authority is given to the Investment Dealer, discretionary authority must be:
  - Clearly explained
  - Specifically confirmed by the client, unless such discretionary authority is provided in another document that is consistent with applicable requirements

**4.9** Understand the disclosures in relation to the client in the derivatives trading agreement. Consider:

- Client's obligation to:
  - Comply with CIRO requirements and the requirements of any entity through which the derivative is traded, cleared or issued— including, without limitation, reporting position and exercise limits
  - Maintain adequate margin collateral and to pay any debts owed to the Investment Dealer
  - Pay commission or other compensation, if any
  - Pay interest, if any, on account debit balances
- Client's acknowledgment of:
  - Receiving the most recent derivatives risk disclosure statement
  - Their obligation to inform and update the Investment Dealer of any circumstances under which they would be considered an insider of a reporting issuer or any other issuer whose securities are publicly traded

**4.10** Understand other matters required by a derivatives trading, clearing or issuing entity. Consider:

- Investment Dealer's deadlines for a client to submit an exercise notice:
  - Method used to distribute assignment notices
- Written notice that:
  - The Investment Dealer may set maximum limits on short positions
  - The Investment Dealer may apply cash-only terms during the last 10 days before expiry
  - CIRO may impose other rules affecting existing or subsequent transactions
  - The client's obligation to instruct the Investment Dealer to close out positions before expiry

- Statement indicating that the Investment Dealer requires the client to maintain minimum margin that is the greater of:
  - The amount the derivatives marketplace or clearing house prescribes
  - CIRO's requirements or
  - The Investment Dealer's requirements

**4.11** Understand the client's cumulative loss limits:

- Applies to an account where the transactions involve futures contracts, forward contracts, Contracts for Difference (CFDs), futures contract options or similar derivatives or highly leveraged securities or derivatives
- Applies to an account, other than a hedging account, whether the account is an advisory account, a discretionary account, a managed account or an OEO account
- Must be determined on:
  - A lifetime basis and validated with the client on an annual basis or
  - An annual basis and updated annually

**4.12** Understand the purpose and content of a Letter of Undertaking as an alternative to trading agreement for institutional clients only.

**4.13** Understand the requirements for the supervision of managed accounts. Consider the need to:

- Designate a Supervisor to be responsible for managed accounts
- Establish policies and procedures that specifically address supervision and operation of managed accounts in accordance with applicable requirements
- Enter into a managed account agreement with the client prior to opening a managed account
- Approve each managed account in writing
- Retain a record of the approval
- Provide the client with a copy of its policy ensuring fair allocation of investment opportunities

**4.14** Understand the purpose and content of the managed account agreement. Consider:

- Description or reference to the client's:
  - Financial circumstance
  - Investment knowledge
  - Risk profile



- Investment objectives
  - Time horizon
  - Description of any investment restrictions imposed by the client, where permitted by the Investment Dealer
  - Terms of termination in accordance with applicable requirements
  - Requirements for termination upon written notice by:
    - Client, effective on receipt by the Investment Dealer, except for transactions entered prior to receipt of the notice
    - Investment Dealer, effective not less than 30 days from the date the Investment Dealer delivered the notice to the client
- 4.15** Apply conflicts of interest rules for managed accounts to specific situations relevant to a Supervisor, including restrictions against:
- Investment Dealer trades on own account or knowingly permitting or arranging any associate or affiliate to trade, in reliance upon information relating to trades made or to be made, in a managed account
  - Knowingly allowing, without the prior written consent of the client, a managed account to invest:
    - A security or derivative of a security of an issuer:
      - Related or connected to a responsible person or to the Investment Dealer
      - If the individual specifically authorized to deal with managed accounts is an officer or Director of the issuer, unless the position with the issuer is disclosed to the client
    - New issues or secondary offerings underwritten by the Investment Dealer
  - Knowingly causing any managed account to:
    - 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
      - An investment fund for which a responsible person acts as an advisor
    - Provide a guarantee or loan to a responsible person or an associate of a responsible person
- Unfairly allocating investment opportunities among its managed accounts
- 4.16** Understand the fees and remuneration rules and prohibitions on certain types of fees and compensation, including:
- Investment Dealer must not compensate a person based on the value or volume of transactions in the account
  - Investment Dealer may not charge a client directly, without a written agreement, for services rendered to the managed account, that is:
    - Based on the volume or value of transactions in the account
    - Contingent upon profit or performance of the client's account
- 4.17** Understand the prohibition on a designated Supervisor for discretionary accounts to delegate the performance of reviews.
- 4.18** Understand the requirements for the supervision of discretionary accounts. Consider the need to:
- Designate one or more Supervisors, who meet applicable proficiency requirements to be responsible for the discretionary accounts
  - Establish policies and procedures that specifically address the supervision and operation of discretionary accounts in accordance with applicable requirements
  - Identify discretionary accounts on its books and records to allow supervision of the discretionary accounts in accordance with applicable requirements
  - Enter into a discretionary account agreement with the client prior to accepting the account as a discretionary account
  - Designate a Supervisor who must approve the account as a discretionary account and approve the discretionary account agreement signed by the client
  - Maintain a record of the designated Supervisor's approval in accordance with the applicable record retention requirements
- 4.19** Understand the purpose and content of a discretionary account agreement, required disclosures, rights and obligations where permitted by the Investment Dealer, including:
- Defining the extent of the discretionary authority given to the Investment Dealer by the client
  - Restrictions on the discretionary authority
  - Maximum term of no longer than 12 months (non-renewable)
- Terms of termination in accordance with applicable requirements
  - Requirement for termination by written notice only by the client or Investment Dealer:
    - Client, effective on receipt by the dealer, except for transactions entered prior to receipt of the notice
    - Dealer, effective not less than 30 days from the date the dealer delivered the notice to the client
  - Specific conflicts of interest rules for discretionary accounts, including that a discretionary account must not hold any publicly traded securities of the Investment Dealer or its affiliates
  - Restrictions on the responsible person or Investment Dealer:
    - Own account trading
    - Provision of guarantees
    - Trades by interested parties
- 4.20** Apply account appropriateness assessment to specific situations relevant to a Supervisor in relation to:
- Advisory accounts
  - Managed accounts
  - Discretionary accounts
  - Leveraged accounts
  - Margin accounts
  - Derivatives accounts, including use of derivatives trading strategies
- 4.21** Apply account appropriateness assessment to OEO accounts in specific situations relevant to a Supervisor. Consider:
- If a person would be incapable of conducting online activities (e.g. clear and persistent difficulties in completing the OEO Investment Dealer's online new-account application form)
  - If investor is looking for advice
  - Restrictions related to derivative account approvals for OEO Investment Dealers, including:
    - Trading in CFDs
    - Over-the-Counter (OTC) derivatives
    - Futures or similar derivative trading strategies
    - Options trading strategies other than low-risk strategies based on long calls, long puts, covered calls or protective (long) puts



## Element 5: Specific supervision responsibilities in relation to account activity

**Summary:** Element 5 continues the theme of Element 4 but now requires an understanding of the ongoing risks of different accounts. It requires the Supervisor to analyze situations to identify what risks may be present and apply appropriate procedures to mitigate or respond to those risks.

### 5.1 Understand different approaches to supervision, including:

- Tiered approach
- Single centralized approach
- Considerations with remote supervision approach

### 5.2 Apply the account supervision requirements to specific situations relevant to a Supervisor. Consider:

- Identification of clients that present a high risk to the Investment Dealer
- Identification of clients that present a high risk of conducting improper activities in the securities markets
- Compliance with all Anti-Money Laundering and Terrorist Financing requirements under applicable laws and regulations
- Inclusion of controls for accessing and amending client records

### 5.3 Understand the enhanced supervisory measures applicable to Approved Persons with a history of regulatory infractions or questionable conduct:

- Pre-approval of orders by Supervisor
- Daily and monthly review of all client accounts

### 5.4 Understand the risks associated with the method of order entry and the absence of intermediation by employees of the Investment Dealer (where approved for order execution only (OEO) accounts).

### 5.5 Understand the requirements and conditions for applying temporary holds to prevent financial exploitation of vulnerable clients.

### 5.6 Analyze situations relevant to a Supervisor regarding retail account supervision. Consider:

- Daily supervision of trading activity in retail client account, including review of red flags and trades that may not comply with CRO requirements and applicable policies and procedures

- Monthly supervision of trading activity in retail client accounts, including review of specified account types
- Detection of concerning and suspicious account practices, such as:
  - Unsuitable trading
  - Undue concentration of securities, derivatives or precious metal bullion in a single account or across accounts
  - Excessive trading
  - Trading in restricted securities or transacting in derivatives whose underlying interest is a restricted security
  - Conflict of interest between client-facing Approved Person and client's trading activity
  - Excessive transaction transfers and trade cancellation indicating possible unauthorized trading
  - Inappropriate or high-risk trading strategies
  - Deterioration of the quality of client holdings in an account
  - Excessive or improper crosses of securities, derivatives or precious metals bullion between clients
  - Improper or excessive employee trading
  - Front running
  - Account number changes
  - Late payment
  - Outstanding margin calls
  - Undisclosed short sales
  - Manipulative and deceptive activities
  - Insider trading
- Transactional information required for retail client instructions, including direct, indirect and subsequent client charges or commissions





**5.7** Understand the requirements regarding cross supervision.

**5.8** Understand the client hold mail account procedures for retail clients.

Consider:

- Authorization from client
- Time limits
- Control and regular review

**5.9** Apply to specific situations relevant to a Supervisor the requirements for policies and procedures that specifically address:

- Supervision and review of trading activity in institutional client accounts
- Actions to deal with problems or issues identified through supervisory review
- Detecting improper or suspicious account activity, including:
  - Manipulative and deceptive activities
  - Trading in securities on the Investment Dealer's restricted list
  - Transacting in derivatives whose underlying interest is on the Investment Dealer's restricted list
  - Front-running by employee or proprietary accounts
  - Trading in securities that have restrictions on their transfer
  - Transacting in derivatives whose underlying interest has restrictions on their transfer
  - Exceeding derivative position or exercise limits on derivative products
  - Trading activity around margin/reduced margin rates and price thresholds

**5.10** Understand the direct market access (DMA) account and supervision requirements for institutional clients, including algorithmic trading.

**5.11** Understand the OEO account services exemptions and requirements.

Consider:

- Policies and procedures for reviewing client trading
- Ongoing supervisory requirements for automated OEO account approvals
- Risks associated with the direct method of order entry (e.g. no Approved Person intermediary)
- Applicable CFD Undertakings

**5.12** Understand CRO requirements for handling derivatives accounts, including the need to appoint one or more alternate Supervisors where continuous supervision of derivatives trading activity is required

**5.13** Apply to specific situations relevant to a Supervisor the requirements specific to retail clients holding a derivative account to detect:

- Excessive intra-day and short-term transactions
- Transacting while under-margined
- Transacting beyond margin or credit limits
- Exceeding approved loss limits
- Exceeding derivative position or exercise limits
- Speculative transaction in hedging accounts
- Transactions in derivatives whose underlying interest is on the Investment Dealer's restricted list
- Transactions in derivatives whose underlying interest has restrictions on its transfer
- Transacting in derivatives to avoid insider trading restrictions
- Exposures arising out of uncovered option positions
- Exposures to delivery obligations through the holding of futures contracts, forward contracts and similar derivatives into the delivery month

**5.14** Apply the use of policies and procedures to specific situations relevant to a Supervisor. Consider:

- Notifying clients of:
  - Approaching expiry dates
  - Significant changes in derivatives which result from changes in the underlying interest
  - Changes in the Investment Dealer's business policy
  - New developments in the trading or regulation of derivatives that may impact clients
- Requiring approval to solicit clients to use derivatives
- Requiring Supervisor approval to solicit clients to use derivative programs and use of derivatives
- Preventing a client from transacting in derivatives without an executed derivatives trading agreement

- Addressing handling of futures contracts, forward contracts and similar derivatives with pending delivery months
- Addressing derivatives trading by a client who is an insider of a reporting issuer or any other issuer whose securities are publicly traded to avoid insider trading restrictions
- Preventing a retail client from holding Contracts for Difference (CFDs) or similar derivatives positions representing more than 0.5% of the float of a reporting issuer or any other issuer whose securities are publicly traded on an intra-day or short-term basis
- Prohibiting the offering of CFDs or similar derivatives to a retail client that confer the right or obligation to acquire or deliver the underlying interest or confer any other rights of shareholdings, such as voting rights
- Addressing or requiring clients to have access, during normal business hours, to qualified Approved Persons

**5.15** Apply the policies and procedures that specifically address the supervision of individuals responsible for handling managed accounts to specific situations relevant to a Supervisor. Consider:

- Managed account conflict of interest related requirements
- Fairness in the allocation of investment opportunities
- Provide reasonable assurance of compliance with CRO requirements, securities and derivatives laws, regulations and other applicable laws
- Direct supervision of Associated Portfolio Managers, including applicable conditions and exceptions
- Requirements and responsibilities of a managed account committee

**5.16** Understand the importance for Approved Persons, including Supervisors, to prepare and retain relevant documentation and assessments of clients and client activities in relation to the above activities.



## Element 6: Specific supervision responsibilities in relation to activities of Approved Persons

**Summary:** Element 6 requires the Supervisor to analyze specific situations and risks that they may encounter during account opening and ongoing account activities. It also requires them to apply the requirements relating to product due diligence, know-your-client (KYC) and suitability determination to specific situations and understand the importance of client education and information.

- 6.1** Analyze specific situations the Supervisor's responsibility relating to permitted and prohibited activities of Approved Persons. Consider:
    - Investment Representatives
    - Registered Representatives
    - Associate Portfolio Managers
    - Portfolio Managers
  - 6.2** Analyze specific supervisory responsibilities relating to account opening. Consider:
    - Order execution only (OEO) accounts
    - Advisory accounts
    - Managed accounts
    - Discretionary accounts
    - Derivatives accounts
    - Margin accounts
    - Use of leverage in accounts
  - 6.3** Apply to specific situations the Supervisor's responsibility relating to the suitability determination for retail and institutional clients.
  - 6.4** Analyze specific supervisory responsibilities relating to account activity once opened. Consider:
    - OEO accounts
    - Leveraged accounts
    - Advisory accounts
    - Managed accounts
    - Discretionary accounts
    - Derivatives accounts
  - 6.5** Understand the product due diligence and KYC obligations on:
    - The Investment Dealer
    - The Approved Person
  - 6.6** Understand the role of the Supervisor in ensuring Approved Persons educate clients in the purpose of:
    - KYC information and new accounts-related documentation, including:
      - Client's financial circumstances
      - Investment knowledge
      - Risk profile
      - Investment needs and objectives
      - Time horizon
    - Significance of the KYC obligation and its relationship to recommendations
    - Relationship between objectives, risk tolerance, risk capacity and performance
    - Requirements for full, transparent disclosure of all the client's information, including:
      - Debts and liabilities
      - Future goals
      - All current cash flow/commitments
    - Fluid nature of a client's circumstances that may impact their:
      - Finances
      - Investment knowledge
      - Risk profile
      - Investment needs and objectives
      - Time horizon
  - The content of the Client Relationship Document including fees and commissions
  - Application of the situations above to institutional clients
  - Exemptions for Institutional client suitability determinations
  - Requirements for partnerships, trusts and corporate accounts
- 6.7** Understand the responsibility of the Supervisor to ensure Approved Persons under their supervision have the necessary qualifications to perform their activities.
- 6.8** Understand the responsibility of the Supervisor to ensure information, disclosures and agreements are sent to clients and, where relevant, have been acknowledged.



## Element 7: Specific supervision responsibilities in relation to trading and market rules

**Summary:** A Supervisor is expected to understand and be able to apply the obligations under the Universal Market Integrity Rules (UMIR) in Element 7. They are also required to apply the appropriate regulatory standards to the supervision of order placement and gatekeeping responsibilities.

### 7.1 Understand the market rules, including UMIR, Consider:

- Best execution
- Specific unacceptable activities
- Manipulative and deceptive practices
- Frontrunning
- Placement of orders, settlement and delivery process
- Processes for handling order errors and changes
- Restriction process on overdue cash accounts
- Requirements to confirm orders with clients, including fees and commissions
- Investment Dealer requirements, guidelines and best practices for trade confirmations sent to clients
- Types of buy, sell and short sell orders
  - Basis order
  - Bundled order
  - Bypass order
  - Call market order
  - Closing price order
  - Dark order
  - Jitney order
  - Limit order
  - Market-on-close order
  - Market order
  - Multiple client order
  - Opening order
  - Program trade
  - Special terms order
  - Volume-weighted average price order

- Long and short margin accounts and special margin situations
- Need for specialized trading authorizations at the Investment Dealer

### 7.2 Apply the applicable regulatory standards with respect to the review, acceptance and approval of orders to specific situations relevant to a Supervisor.

### 7.3 Understand the obligations on the Investment Dealer regarding its trading supervisory systems. Consider:

- Identification of relevant requirements
- Documentation of the supervision system
- Training and proficiency
- Delegation of supervisory and compliance personnel
- Procedures for dealing with violations
- Reviewing supervision systems
- Documenting results of compliance reviews
- Retaining results of reviews
- Reports to Board of Directors

### 7.4 Understand the obligations on the Investment Dealer regarding its 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
- Electronic access to marketplaces
- Specific unacceptable activities
- Manipulative and deceptive activities
- Trading in restricted securities
- Trading of grey list securities
- Disclosure requirements
- Frontrunning
- Client/principal trading

- Client priority
- Best execution
- Order exposure requirements
- Time synchronization requirements

### 7.5 Understand the obligations on the Investment Dealer regarding its risk-based supervision system, which reflects:

- Participant's size (considering factors such as revenue, market share, market exposure and volume of trades)
- Participant's organizational structure
- Number and location of the Participant's offices
- Nature and complexity of the products and services offered by the Participant
- Number of registrants assigned to a location
- Disciplinary history of registered representatives or associated persons
- Risk profile of the Participant's business and any indicators of irregularities or misconduct (e.g. red flags)

### 7.6 Apply the gatekeeping responsibilities and applicable regulatory requirements to specific situations relevant to a Supervisor, including:

- Client's typical financial activity and patterns to identify suspicious transactions
- Applicable regulatory frameworks on whistleblowers
- Applicable reporting obligations to Investment Dealers and regulators



## Element 8: Specific supervision responsibilities in relation to advertisements, sales literature and communications and research

**Summary:** This element requires a Supervisor to understand the requirements when an Investment Dealer or Approved Person communicates with a client, advertises products and services or produces research documentation. It also requires the Supervisor to apply these requirements to specific situations relevant to a Supervisor.

- 8.1** Understand the requirements that specifically address the review and supervision of advertisements, sales literature and client correspondence relating to its business. Consider:
- Awareness of obligations and best practices
  - The appropriate use of professional titles and trade names
  - Misleading communications
  - Restrictions and guidelines regarding social media and other communications with the public
  - Use of Advisor ranking/contest lists
  - Legislative requirements, including Canadian Anti-spam Legislation
  - Off-channel communication issues
  - Post-use review and sampling
  - Reasonable assurance that employees and Approved Persons are familiar with related policies and procedures
  - Document retention and supervisory record-keeping requirements
- 8.2** Apply to specific situations, relevant to a Supervisor, the requirements for an Investment Dealer to ensure that the following items are approved by a designated Supervisor before use or publication:
- Research reports
  - Market letters
  - Telemarketing scripts
  - Promotional seminar materials
  - Investment fund practices
  - Original advertisements or original template advertisements
  - Material containing performance reports or summaries that are used to solicit clients
- 8.3** Apply the requirements relating to research report disclosures to specific situations relevant to a Supervisor. Consider the following disclosures:
- Policies and procedures for dissemination of research
  - Disclosure of potential conflicts of interest
    - Beneficial ownership of 1% or more of issuers equity shares
    - Analyst or associate hold or short issuer's securities or derivatives
    - Prior paid for services other than normal course investment advisory or trades execution services
    - Investment Dealer provided investment banking services in the preceding 12 months
    - Analyst compensated in the previous 12 months based on Investment Dealer's banking revenues
    - Positions of influence
    - Market making
  - Disclosure required when visiting the issuer and if expenses were reimbursed by the issuer
  - System for rating investment opportunities and where each recommendation fits
  - Quality of disclosure
  - Application to third-party research
  - Setting price targets and valuation methods
  - Public appearance requirements
  - Discontinuing coverage
- 8.4** Analyze specific situations relating to the supervision of conduct of Investment Dealers and relevant individuals when producing research reports. Consider:
- Designating one or more Supervisors to be responsible for reviewing and approving research reports
    - Cross-supervision
  - Controls regarding advance dissemination of any part of a research report prior to publication
  - Prohibitions on issuing research reports
    - Investment Dealer's own securities or those of its holding company
    - Where relevant individuals have a relationship with the issuer
    - Investment banking provisions
    - Quiet periods
    - Placed on Restricted List
  - Prohibited inducements
  - Controls for wall-crossing an Analyst
  - Trading
    - Policies and procedures on detecting and restricting trades
    - Restrictions on relevant individuals
    - Approval by designated Executive
  - Conduct of analysts, including personal trading and outside activities



## Element 9: Specific supervision responsibilities in relation to risks associated with Investment Dealer activity and registered locations

**Summary:** Element 9 requires a Supervisor to analyze a variety of risk factors relevant to the Investment Dealer and apply supervisory requirements to a variety of retail distribution risks.

### 9.1 Understand the guidelines for business location supervision, including:

- Scope
- Planning
- Business location audit program and training
- Risk identification
- Audit report and follow up

### 9.2 Understand additional risk factors and the potential impact on the Investment Dealers and its clients of using different business locations. Consider:

- Internal risk factors, including:
  - Adequacy of resources
  - Key person reliance
  - Principal-agent
- Reputational risk, including:
  - Community-specific marketing strategy and sales practices
  - Number of outside activities
  - Any internal disciplinary action
  - Number of complaints
- Business location's business activity risk, including:
  - Exposure inherent to providing a particular product or service at a business location
  - Business location's lines of business and the aggregate risk present in its overall portfolio
  - Number of trading errors
- Business location size risk, including:
  - Risk-weighting
  - Risk assessment and control practices

- Number of registrants
- Client base risk, business location assumes the risk that clients may use it for inappropriate actions

### 9.3 Apply supervisory requirements to retail distribution risks, including advisory services and fully discretionary managed products to specific situations relevant to a Supervisor. Consider:

- The sale of complex or opaque products by individual registrants, including illiquid or alternative products
- Inadequate control over books and records, with particular attention to poor control of client address changes
- Failure to meet regulatory standards for supervision and control, including inadequate control and review of advertising and sales literature and the lack of documented evidence of overall supervision
- Failure to meet requirements for managing the margin activities of clients
- Inadequate follow-up procedures to ensure that compliance audit findings are properly tracked and corrective action is taken by a business location
- New or complex products that are not understood by retail investors
- Approved Person's failure to meet regulatory, contractual and legal obligations and to apply high levels of integrity
- Improper reassignment terminated registrants' accounts
- Commission-based compensation programs that may present conflicts of interest between the economic interests of the clients and an Approved Person



