



Appendix 3 – Blackline copy of proposed rule amendments – MFD Rules



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1 RULE 1A. APPLICATION, INTERPRETATION, EXEMPTIONS, AND DEFINITIONS

Application / Interpretation

- (i) Requirements under these Rules that apply to a Dealer ~~Members~~Member registered as a mutual fund ~~dealers~~dealer also apply to its employees and ~~their~~ Approved Persons, if the context is appropriate;
- (ii) Requirements under ~~securities legislation~~ these Rules that apply to an Approved Person or an Incorporated Approved Person also apply to the employees and shareholders of an Incorporated Approved Person, if the context is appropriate;
- (iii) Notwithstanding ~~paragraph~~paragraphs (i) and (ii), where a Dealer Member is registered under securities legislation as a mutual fund dealer and an investment dealer, the Dealer Member ~~and~~ its employees and Approved Persons and the employees and shareholders of any Incorporated Approved Persons it sponsors are 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

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Definitions

In these Rules unless the context otherwise specifies or requires:

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“agent” means an individual who is subject to the principal and agent relationship requirements set out in Rule 1.1.5;

"Approved Person" means :

- (i) an individual who is a partner, director, officer, compliance officer, branch manager, or alternate branch manager, employee or agent of the Member who :
 - (ia) is registered or permitted, where required by applicable securities legislation, by the securities commission having jurisdiction, or ~~(ii)~~
 - (b) submits to the jurisdiction of the Corporation, or
- (ii) a non-individual who has been approved by the Corporation as an Incorporated Approved Person;

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“Dealer Member” has the same meaning as set out in General By-law No. 1, section 1.1;

“employee” means an employee or agent of a Member;

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“Incorporated Approved Person” means a non-individual who is subject to the requirements set out in Rules 1.1.6, 1.5 and 2.4.1 that are applicable where the activities an agent performs for the Member are conducted through a separate corporation that employs the agent.

“individual” means a natural person;

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“person” means 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;

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“qualified individual financial services advisor” means an individual who:

- (i) provides financial services in a regulated Canadian financial services sector, and
- (ii) has the necessary registration, approvals and proficiencies to provide these financial services in Canada.

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“records” means, for the purposes of Rule 6.2, 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;

“regulated Canadian financial services sector” means a Canadian financial services sector that is subject to adequate regulatory oversight by a regulator or self-regulatory organization as determined at the discretion of the Corporation and as made available on the Corporation’s website;

“related person” has the same meaning as set out in the Income Tax Act (Canada).

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"**Rules**" means these Rules made pursuant to General By-law No.1 and any Forms prescribed thereunder applicable to Members, their employees and Approved Persons and the employees and shareholders of any Incorporated Approved Persons they sponsor;

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"**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 individual Approved Persons and supervised by an individual Approved Person as required under the Rules who is not normally present at such sub-branch office;

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1. RULE 1 - BUSINESS STRUCTURES AND QUALIFICATIONS

1.1 Business Structures

1.1.1 Members

No Member or Approved Person (as defined in Rule 1A) in respect of a Member shall, directly or indirectly, engage in any securities related business (as defined in Rule 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 it 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,



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- (ii) a principal and agent, in compliance with Rule 1.1.5,
- (iii) a principal and incorporated 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 Members and Approved Persons

- (a) Each Member shall comply with:
 - (i) the By-laws,
 - (ii) ~~The~~the Rules, and
 - (iii) applicable securities legislation relating to the operations, standards of practice and business conduct of Members.
- (b) 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:
 - (i) the Bylaws,
 - (ii) the Rules, and
 - (iii) applicable securities legislation relating to:
 - (A) the operations, standards of practice and business conduct of each Member; and
 - (B) such Approved Person's operations, standards of practice and business conduct.

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



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- (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 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 through use of individual 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~~ Permissible agent arrangements

A Member may conduct ~~its~~ business by sponsoring individual Approved ~~Persons~~ Person agents retained or contracted by it ~~as agents provided that~~. Where a Member plans to conduct business through an individual Approved Person agent:

- (a) under a principal and agent arrangement:
 - (i) the Member and the Corporation must enter into a written agreement that complies with the requirements set out in Rule 1.1.5(c); and
 - (ii) the Member and the individual Approved Person agent must enter into a written agreement that complies with the requirements set out in Rule 1.1.5(d).
- (b) from within a separate corporation under an incorporated agent arrangement:
 - ~~(a) — any such agent is~~ (i) the Member and the Corporation must enter into a written agreement that complies with the requirements set out in Rule 1.1.5(c); and
 - (ii) the Member, the agent and the separate corporation must comply with the requirements set out in Rule 1.1.5(e).
- (c) Specific requirements involving the Member and the Corporation
 - (i) Before engaging any agents to conduct business under a principal and agent arrangement or under an incorporated agent arrangement, the Member must enter into a written agreement with the Corporation.



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- (ii) The written agreement required in Rule 1.1.5(c)(i) must contain terms describing the Member’s responsibility:
 - (A) for the agent’s conduct, including the agent’s compliance with Corporation requirements and securities laws; and
 - (B) to clients for the agent’s acts and omissions relating to the Member’s business.
- (iii) The Corporation must be satisfied with the form of the written agreement to be executed to comply with Rule 1.1.5(c)(i).
- (iv) The written agreement required in Rule 1.1.5(c)(i) must be in a form similar to the following:

“Agreement between the Member and the Corporation”

1. Recitals

- (i) As a Member of [Name of Corporation], the Member agrees it is subject to Corporation requirements.
- (ii) Rule 1.1.5(c) of the Corporation Mutual Fund Dealer Rules, “Specific requirements involving the Member and the Corporation”, requires the Member to make this agreement with the Corporation.
- (iii) This agreement is in addition to and does not alter Corporation requirements or any other agreement between the Member and the Corporation.

2. Agreement with the Agent

- (i) The Member must enter into a written agreement with each of its agents as required by:
 - (A) Rule 1.1.5(d) of the Corporation Mutual Fund Dealer Rules, “Specific Member and agent requirements under a principal and agent arrangement”, and any successor rules relating to principal and agent arrangements, and
 - (B) Rule 1.1.5(e) of the Corporation Mutual Fund Dealer Rules, “Specific Member, agent and agent’s corporation requirements under an incorporated agent arrangement”, and any successor rules relating to incorporated agent arrangements.
- (ii) The agreement must require that the agent complies with all applicable laws and Corporation requirements.

3. Supervision of the Agent

The Member must treat each of its agents in the same manner as it would treat its employees with respect to:

- (i) administration of Corporation requirements,
- (ii) supervision of the agent under Corporation requirements, and



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

4. Written Disclosure of Respective Responsibilities to Clients

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

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

(ii) that the 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 or similar language acceptable to the Corporation in the account application:

“If your investment advisor is an agent of [the Member name], [Member name] is irrevocably liable to you for any acts and omissions of your investment advisor and, if applicable, your investment advisor’s corporation with regard to [Member name] business. 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 Member must ensure that the agent has made the disclosure directly to the clients.

7. Regulatory Authority of the Corporation

This contract confers on the Corporation non-exclusive authority to regulate and enforce the provisions set out in the:

(i) Member and agent agreement required under Rule 1.1.5(d) of the Corporation Mutual Fund Dealer Rules, “Specific Member and agent requirements under a principal and agent arrangement”, and any successor rules relating to principal and agent arrangements, and

(ii) Member, agent and agent’s corporation agreement required under Rule 1.1.5(e) of the Corporation Mutual Fund Dealer Rules, “Specific Member, agent and agent’s corporation requirements under an incorporated agent arrangement”, and any successor rules relating to incorporated agent arrangements.

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 Member may not assign the agreement without the Corporation’s prior written consent.

DATED as of the _____ day of _____,



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[MEMBER]

[NAME AND TITLE OF SIGNING INDIVIDUAL]

”

(d) Specific Member and agent requirements under a principal and agent arrangement

- (i) The Member and the agent who conducts business on behalf of the Member under a principal and agent arrangement must enter into a written agreement.
- (ii) The written agreement required in subsection Rule 1.1.5(d)(i) must not contain any terms inconsistent with Corporation requirements or securities laws.
- (iii) The Corporation must be satisfied with the form of the written agreement that is prepared to comply with the requirement in Rule 1.1.5(d)(i) before the Member finalizes the agreement with the agent.
- (iv) The Member must certify to the Corporation that the written agreement complies with Rule 1.1.5 and any other applicable Corporation requirements and applicable laws.
- (v) The Corporation may request that the Member obtain a legal opinion confirming Rule 1.1.5(d)(iv).
- (vi) The written agreement must contain the following minimum terms:

(A) Compliance with the applicable laws

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

(B) Confirmation of supremacy of Corporation requirements

The agent and the Member confirm that:

- (I) this agreement is made in compliance with Corporation requirements,
- (II) if there is an inconsistency between this agreement and any applicable Corporation requirements, the Corporation requirements will prevail,
- (III) any inconsistent terms will be deemed severed and deleted,
- (IV) the Corporation has the authority to regulate and enforce the provisions set out in this agreement, and
- (V) this agreement will be interpreted and enforced to give full effect to any applicable Corporation requirements.

(C) Compliance by the agent with applicable laws, securities laws, and Corporation requirements

- (I) The agent warrants to the Member that it is appropriately registered or licensed ~~in the manner necessary, and is,~~ in good standing, ~~under the and in compliance with all~~ applicable ~~legislation in the province or territory where the agent proposes to act;~~ laws, securities laws and Corporation requirements.



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~~(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~~

(II) The agent covenants to comply with all applicable laws, securities laws and Corporation requirements.

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

(D) Conduct of the agent's business

(I) The agent agrees to conduct all securities related business in the Member's name, subject to Rule 1.1.7 relating to the use of business names, trade names and styles.

(II) The agent agrees to conduct all securities related business through the Member.

(E) Supervision of the agent by the Member

The Member agrees to be:

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

(II) liable to clients (and other third parties ~~(including clients) for the acts and omissions of~~) for the agent's conduct relating to activities performed on the Member's behalf.

(F) Written disclosure to clients

The agent will advise its clients directly:

(I) of the list of securities related business;

~~(d) activities conducted by the agent for which the Member and the agent are responsible, and~~

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

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

(G) Member assumes responsibility for clients

(I) In the event that:

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



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(b) the Member has reasonable grounds to believe that the agent has contravened or may be contravening one or more Corporation requirements or securities laws,

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

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

(III) The 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.

(H) Outside activities

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

(II) If the agent is involved in an outside activity, the Member agrees to monitor and enforce compliance with the ~~legislation, By laws and Rules applicable to the agent;~~

~~(e) the~~ terms of this agreement directly and not through another employer or principal of the agent.

(III) The agent agrees to ensure that the outside activity will not interfere with the Member or the Corporation monitoring and enforcing compliance by the agent with this agreement or Corporation requirements.

(I) Access to premises

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

(J) Records

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

(I) will conform to Corporation requirements,

(II) are the Member's property,

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

(IV) shall be delivered to the Member on termination of the agreement.

(K) Insurance

The Member agrees to maintain financial institution ~~bonds~~ bond and insurance policies ~~required to be maintained by the Member pursuant to Rule 4~~ that cover ~~and relate to the~~ the agent's conduct ~~of the agent;~~ relating to the securities related business they conduct for the Member.

(L) Assignment of agreement



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The agent acknowledges that the Member has the right to assign to the Corporation any or all of the Member's rights to enforce the terms of this agreement that relate to Corporation requirements.

(e) Specific Member, agent and agent's corporation requirements under an incorporated agent arrangement

(i) Where it is intended that business the agent conducts on behalf of the Member will be conducted through a separate corporation:

(A) the corporation must be:

(I) incorporated under the laws of Canada or a province or territory of Canada,

(II) registered in the appropriate registration category in those provinces and territories in Canada in which it operates that require the corporation to be registered,

(III) exempt from registration in those other provinces and territories in Canada in which it operates, and

(IV) approved by the Corporation as an Incorporated Approved Person.

(B) the activities that may be carried out within the Incorporated Approved Person, in addition to those activities performed on the sponsoring Member's behalf, are limited to those activities that:

(I) are determined by the Corporation to be:

(a) ancillary to the activities performed within the Incorporated Approved Person on the sponsoring Member's behalf, or

(b) regulated Canadian financial services sector activities, provided the agent:

(i) is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and

(ii) is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed,

(II) are not contrary to securities laws, and

(III) do not bring the securities industry into disrepute, and

~~(fIV) all books and records prepared and maintained by the agent in respect of such business of the~~ have been approved in advance by the sponsoring Member ~~shall~~to be carried out within the Incorporated Approved Person in accordance with the requirements set out in Rule ~~5~~ and applicable legislation, ~~shall be the property of~~ 1.3.3.

(C) the agent must be:

(I) an individual Approved Person sponsored by the Member,



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- (II) registered as a mutual fund dealing representative in those provinces and territories in Canada in which they carry out business,
- (III) a shareholder of the corporation, and
- (IV) the sole director on the corporation’s board of directors
- (D) subject to the additional applicable shareholder restrictions set out in Rule 1.1.5(e)(ii)(E):
 - (I) the agent sponsored by the Member ~~and shall~~ must be ~~available for review by and delivery~~ the sole voting shareholder of the corporation, and
 - (II) the non-voting shareholders of the corporation are limited to:
 - (a) the agent sponsored by the Member, and
 - (b) related persons of the agent sponsored by the Member.
- (E) voting and non-voting shareholders of the corporation and corporation employees must not include:
 - (I) an individual Approved Person who is sponsored by a different Member or who otherwise does not provide services from within the corporation, or
 - (II) any person who is sanctioned under:
 - (a) Rules 7.4.1.1(c) or 7.4.1.1(e), during ~~normal business hours~~; the period of the sanction, or
 - ~~(g) — all such~~
 - (b) Rule 7.4.1.1(d),where the corporation engages in activities that are within the scope of the sanction.
- (F) a written agreement is entered into between the Member, the Incorporated Approved Person and the agent that is employed by or is a shareholder of the Incorporated Approved Person.
- (ii) The written agreement required in Rule 1.1.5(e)(i)(E) must not contain any terms inconsistent with Corporation requirements or securities laws.
- (iii) The Corporation must be satisfied with the form of the written agreement that is prepared to comply with the requirement in Rule 1.1.5(e)(i)(E) before the Member finalizes the agreement with the Incorporated Approved Person and the agent.
- (iv) The Member must certify to the Corporation that the written agreement complies with Rule 1.1.5 and any other applicable Corporation requirements and applicable laws.
- (v) The Corporation may request that the Member obtain a legal opinion confirming Rule 1.1.5(e)(iv).



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(vi) The written agreement required in Rule 1.1.5(e)(i)(E) must contain the following minimum terms:

(A) Compliance with the applicable laws

The agent, the agent’s corporation and the Member confirm that this agreement does not violate applicable laws.

(B) Confirmation of supremacy of Corporation requirements

The agent, the agent’s corporation and the Member confirm that:

- (I) this agreement is made in compliance with Corporation requirements,
- (II) if there is an inconsistency between this agreement and any applicable Corporation requirements, the Corporation requirements will prevail,
- (III) any inconsistent terms will be deemed severed and deleted,
- (IV) the Corporation has the authority to regulate and enforce the provisions set out in this agreement, and
- (V) this agreement will be interpreted and enforced to give full effect to any applicable Corporation requirements.

(C) Compliance by the agent and the agent’s corporation with applicable laws, securities laws, and Corporation requirements

- (I) The agent warrants to the Member that it is appropriately registered or licensed, in good standing and in compliance with all applicable laws, securities laws and Corporation requirements.
- (II) The agent’s corporation warrants to the Member that it is appropriately registered or licensed, in good standing and in compliance with all applicable laws, securities laws and Corporation requirements.
- (III) The agent and the agent’s corporation each covenant to comply with all applicable laws, securities laws and Corporation requirements.
- (IV) The agent and the agent’s corporation each agree to be bound by and comply with the warranties and covenants above throughout the term of the agreement.

(D) Conduct of the agent’s and the agent’s corporation’s business

- (I) The agent and the agent’s corporation agree to conduct all securities related business ~~conducted by the agent is~~ in the ~~name of the~~ Member’s name, subject to Rule 1.1.7 relating to the provisions use of Rule 1.1.7; trade names.
- (hII) The agent and the agent ~~shall not~~’s corporation agree to conduct all securities related business ~~with or in respect~~ through the Member.

(E) Supervision of the agent and the agent’s corporation by the Member

The Member agrees to be:



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- (I) responsible for the supervision of the agent's and the agent's corporation's conduct to provide reasonable assurance of the agent's and the agent's corporation's compliance with Corporation requirements and the requirements of any ~~person~~ other than securities regulatory authority to which the Member;
- ~~(i) if the agent is engaged in or carrying on any is subject, and~~
- (II) liable to clients (and other third parties) for the agent's and the agent's corporation's conduct relating to activities performed on the Member's behalf.

(F) Written disclosure to clients

The agent will advise the clients directly:

- (I) of the list of securities related business ~~or activity other than business~~ activities conducted ~~on behalf of~~ by the agent and the agent's corporation for which the Member, ~~including~~ the agent and the agent's corporation are responsible, and
- (II) that the Member is not responsible for any other business ~~or~~ activity which is subject to regulation by any regulatory authority other than a securities commission, conducted by the agent and the agent's corporation.

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

(G) Member assumes responsibility for clients

- (I) In the event that:
 - (a) the Corporation or another securities regulatory authority has advised the Member that it has started an investigation relating to allegations of misconduct by the agent or the agent's corporation, or
 - (b) the Member has reasonable grounds to believe that the agent or the agent's corporation has contravened or may be contravening one or more Corporation requirements or securities laws,

the Member may immediately and without notice to the agent or the agent's corporation, assume responsibility for the client to the exclusion of the agent and the agent's corporation.
- (II) The agent and the agent's corporation may not have any dealings or communications with the client as long as the Member has assumed this responsibility.
- (III) The 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 and the agent's corporation.

(H) Outside activities



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- (I) The agent agrees not to conduct any outside activity without disclosing to and obtaining the written consent of the Member.
 - (II) If the agent is involved in an outside activity, the Member agrees to monitor and enforce compliance with the terms of ~~the~~this 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.~~
 - (III) The agent agrees to ensure that the outside activity will not interfere with the Member or the Corporation monitoring and enforcing compliance by the agent and the agent's corporation with this agreement or Corporation requirements.
- (I) Other agent activities within the agent's corporation
- (a) The agent and the agent's corporation agree not to conduct any ~~business or other~~ activity ~~other than business conducted~~ that is not being performed on the behalf of the sponsoring Member ~~shall not prevent or impair the ability of~~ without the agent disclosing to and obtaining the advance written consent of the Member.
 - (b) If the agent is involved in another activity within the agent's corporation, the Member agrees to monitor and enforce compliance with the terms of this agreement directly and not through another employer or principal of the agent carrying out the proposed other activity.
 - (c) The agent and the agent's corporation agree to ensure that the other activity will not interfere with the Member or the Corporation ~~from~~ monitoring and enforcing compliance by the agent and the agent's corporation with ~~the terms of the~~this 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 or Corporation requirements.~~
- (J) Access to premises
- The agent and the agent's corporation agree to give the Member unrestricted access to the premises where the agent and the agent's corporation conduct securities related business on the Member's behalf.
- (K) Records



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The agent and the agent’s corporation agree that the books and records kept by the agent and the agent’s corporation for the Member’s business:

(I) will conform to Corporation requirements,

(II) are the Member’s property,

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

(IV) shall be delivered to the Member on termination of the agreement.

(L) Insurance

The Member agrees to maintain financial institution bond and insurance policies that cover the agent’s and the agent’s corporation’s conduct relating to the securities related business they conduct for the Member.

(M) Assignment of agreement

The agent and the agent’s corporation acknowledge that the Member has the right to assign to the Corporation any or all of the Member’s rights to enforce the terms of this agreement that relate to Corporation requirements.

1.1.6 Introducing and Carrying Arrangement

- (a) **General Requirements.** A Member may enter into an arrangement with another dealer pursuant to which the accounts of the Member (the “introducing dealer”) are carried by another dealer (the “carrying dealer”) provided:
- (i) The carrying dealer is another Member and the arrangement complies with Rule 1.1.6(b) and (c); or
 - (ii) The carrying dealer is an Investment Dealer Member and the arrangement complies with Rule 1.1.6 (d) and (e).
- (b) **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:
- (i) the arrangement shall satisfy the requirements of a carrying arrangement described in Rule 1.1.6(c);
 - (ii) 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;
 - (iii) 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
 - (iv) the arrangement shall be in compliance with the Rules and the securities legislation applicable to either of the Members
- (c) **Terms of Arrangement.** A Member may enter into an agreement with another Member in accordance with Rule 1.1.6(b) if it satisfies the following requirements:



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- (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



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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 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 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 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.
- (d) **Investment Dealer Member Carrying Dealer.** A Member may introduce accounts to an Investment Dealer Member provided that:
- (i) the Member and Investment Dealer Member shall enter into a written agreement evidencing the arrangement and reflecting the requirements of Rule 1.1.6(e) and such other matters as may be required by the Corporation;
 - (ii) the arrangement (including the form of agreement referred to in Rule 1.1.6(e)) 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
 - (iii) the arrangement shall be in compliance with the Rules and the Investment Dealer Rules and the securities legislation applicable to the introducing and carrying dealer or, where for a particular activity the introducing dealer or carrying dealer cannot comply with the requirements applicable to them the introducing and carrying dealer must request exemptive relief from the Corporation that specifies the manner in which the activity must be performed.
- (e) **Terms of Arrangement.** A Member may enter into an agreement with an Investment Dealer Member in accordance with Rule 1.1.6(d) if it satisfies the following requirements:
- (i) the introducing dealer will be subject to and comply with the Rules;



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- (ii) The introducing dealer must perform its activities in a manner that does not interfere with the carrying dealer's ability to comply with its obligations under the Investment Dealer Rules;
- (iii) The carrying dealer will be subject to and comply with the Investment Dealer Rules;
- (iv) The carrying dealer must perform its activities in a manner that does not interfere with the introducing dealer's ability to comply with its obligations under the Rules;
- (v) 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 Rules to the extent of the services provided by the carrying dealer.

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.



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- (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 Rule No. 900,
 - (a) “continuing education program” (“CE program”) means the 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 Rule 900.
 - (c) “cycle” means any 24-month period beginning on December 1st of an odd-numbered year.
 - (d) “Compliance Credit” means a continuing education activity in ~~an~~ Mutual Fund Dealer Compliance topic area, as prescribed under Rule 900.
 - (e) “Professional Development Credit” means one hour of continuing education activity in a professional development topic area, as prescribed under Rule 900.
- (2) The CE Program referred to in subsection (1)(a) above, consists of the following components: (i) business conduct; (ii) professional development; and (iii) 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 individual 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 individual Approved Person must not perform an activity that requires registration under securities legislation unless the individual 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 individual Approved Persons on compliance with Corporation requirements, securities legislation 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 individual 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



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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 individual Approved Person shall comply with continuing education requirements applicable to them, as set out under this Rule and Rule 900.
- (b) **Dealing Representative.** For each cycle, every individual 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 Compliance Credits, in accordance with requirements under Rule 900.
- (c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an individual 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 the Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 Compliance Credits, in accordance with requirements under Rule 900.
- (d) **CE Requirements for a Partial Cycle.**
 - (i) **Non-Application.** An individual 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~~ they are subject to that component requirement for a period that is less than, or equal to, 2 months.
 - (ii) **Pro-ration of Credits.** Where an individual 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,



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and the period in question is greater than 2 months, ~~the Approved Person~~they may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Rule 900.

- (e) **Leaves of Absence.** Where an individual 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 role~~ as an individual Approved Person, the CCO can reduce the CE credit requirements applicable to ~~that Approved Person~~them under Rule 1.2.6(b) or (c), in accordance with the applicable provisions under Rule 900.
- (f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under Rule 900.
- (g) **Evidence of Completion.** Each Member and each individual 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 Rule 900, for a 24-month period following the end of that cycle.
- (h) **Reporting.** Each Member and each individual Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under Rule 900 respecting notification to the Corporation of the completion of CE credits.
- (i) Non-compliance.
 - (i) Where, for any given cycle, an individual Approved Person does not meet the CE credit requirements of the continuing education program, that individual shall cease to act as an individual 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 individual Approved Person to comply with the requirements of this Rule or Rule 900.

1.2.7 Cessation of Approved Person status

- (a) A Member must notify the Corporation of the cessation of an individual’s status as an Approved Person, within the time period and the manner prescribed in National Instrument 33-109.
- (b) Approval of an individual will end if:
 - (i) the individual ceases to be an Approved Person sponsored by a Member; or
 - (ii) the relevant approved:
 - (A) principal and agent arrangement with the Member is terminated; or
 - (B) incorporated agent arrangement with the Member is terminated.

1.3 **Outside ~~Activity~~ and Other Activities**

1.3.1 **Definition**

For the purpose of the Rules, “outside activity” means any activity conducted by an individual Approved Person outside of the Member:



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- (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 individual Approved Person may ~~have, and continue to engage~~ in; an ~~outside~~ activity ~~provided that outside of the Member if~~:

- (a) *Not prohibited.* The Corporation and the securities regulatory authority in the jurisdiction in which the individual Approved Person carries on, or proposes to carry on, the outside activity do not prohibit the individual Approved Person from engaging in such outside activity;
- (b) *Notification.* The individual Approved Person discloses the outside activity to the Member;
- (c) *Approval.* The individual 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 individual 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.

1.3.3 Requirements for Other Activities within an Incorporated Approved Person

An individual Approved Person may engage in other activities within an Incorporated Approved Person that are allowable under Rule 1.1.5(e)(i)(B) if:

- (a) they inform the Member in advance of the proposed activity,
- (b) they obtain the Member's prior approval to engage in the activity,
- (c) the Member's policies and procedures specifically address:
 - (i) continuous service to clients, and
 - (ii) reasonably foreseeable conflicts of interest,

and,

- (d) the Member notifies the Corporation of the activity within the time period and manner required by National Instrument 33-109.

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



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- (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.

1.5 Approval of Non-Individuals

1.5.1 Incorporated Approved Person approval

- (a) A non-individual is not permitted to act as an Incorporated Approved Person and a Member is not permitted to allow a non-individual to act as an Incorporated Approved Person unless:
 - (i) the Member that is sponsoring the non-individual is registered in the appropriate category under securities laws in each jurisdiction in which clients of the Member reside or in which the Member carries on securities related business,
 - (ii) the non-individual, if required to do so under securities laws, is registered (or exempt from such registration) in the appropriate category under securities laws in each jurisdiction in which clients of the non-individual reside or in which the non-individual carries on securities related business, and
 - (iii) the non-individual is approved by the Corporation in the Incorporated Approved Person category, before the non-individual begins work on the sponsoring Member's behalf.
- (b) Where the non-individual is wholly owned by individual Approved Person sponsored by the same Member, such approval will be automatic upon the date the approval of the individual shareholder to act as an Approved Person in the appropriate individual Approved Person category or categories is completed.
- (c) Where the non-individual is partially owned by an individual Approved Person sponsored by the same Member, such approval will occur upon the later of:
 - (i) the date the approval of the individual shareholder to act as an Approved Person in the appropriate individual Approved Person category or categories is completed, and
 - (ii) the date all other individual shareholders are approved by the Corporation.
- (d) A Member must ensure that each non-individual Approved Person sponsored by the Member complies with Corporation requirements applicable to that non-individual's Approved Person category.
- (e) All non-individual Approved Persons are subject to Corporation jurisdiction and must comply with Corporation requirements.



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(f) A non-individual Approved Person must not accept, nor allow an associate to accept, directly or indirectly, any remuneration, gratuity, benefit or other consideration from any person other than their sponsoring Member, its related companies, or affiliates for any activities carried out by the non-individual Approved Person on the sponsoring Member's behalf.

(g) If an Incorporated Approved Person ceases to be approved, the former Incorporated Approved Person must immediately cease any activity requiring Corporation approval.

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.

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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~~person 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~~person 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~~person 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:



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- (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 employee or Approved Person of a Member or employee or shareholder of an Incorporated Approved Person sponsored by the Member 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) they are an individual;
- (b) they and the client ~~and the Approved Person~~ are related ~~to each other for the purposes of the Income Tax Act (Canada)~~ persons; and
- (~~b~~c) ~~the Approved Person has~~ they have obtained the written approval of their Member to borrow the money, securities or other assets or accept the guarantee.

2.2 Client Accounts

Definitions.



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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 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;



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- (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.

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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 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



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- (c) monitor the investments for significant changes.
- (2) An individual Approved Person must not purchase or sell investments for, or recommend investments to, a client unless the individual 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 individual Approved Person to meet their obligations under Rule 2.2.6.
- (3) An individual 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.
- (2.1.7) 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



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advise the client accordingly, make recommendations to address any inconsistencies, and maintain evidence of such advice and recommendations.

- (2.2.7) 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;



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- (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:



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- (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 or employee or shareholder of an Incorporated 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) they are an individual~~

~~(ii) they and the client are related persons;~~

- ~~(iii) the Approved Person notifies~~ they notify the Member of the potential control or authority appointment; and

- ~~(iiiiv) the Approved Person obtains~~ they obtain written Member approval prior to accepting or acting upon the control or authority appointment.

2.4 Remuneration, Commissions and Fees

2.4.1 (a) Payable by Member only

Any remuneration, gratuity, benefit or any other consideration in respect of business conducted by an individual 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 individual Approved Person.

No individual 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 individual Approved Person on behalf of the Member or its affiliates or its related Members.



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(b) Payment of ~~Commissions to Unregistered Corporation~~

~~For the purpose of this Rule, “unregistered corporation” shall be understood to mean commissions by Member to a corporation that is, itself, not registered under securities legislation.~~

Notwithstanding paragraph (a), where an individual Approved Person :

~~(i) _____ acts as an agent of the Member, in compliance with Rule 1.1.5, and~~

~~(ii) _____ conducts business on behalf of a sponsoring Member from within their corporation, in compliance with Rule 1.1.5,~~

~~any remuneration, gratuity, benefit or other consideration in respect of business conducted by the individual Approved Person on behalf of the sponsoring 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, the individual Approved Person and the unregistered’s 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 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 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 Corporation with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with 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 provinces or territories in Canada that prohibit incorporated agent arrangements.

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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 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 with applicable securities legislation by the Member and its employees and Approved Persons; and
 - (ii) promote compliance with the By-laws, Rules and with applicable securities legislation by the Member and its employees and 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 employees and Approved Persons with the By-laws, Rules and with applicable securities legislation;
 - (ii) monitor and assess compliance by the Member and its employees and Approved Persons with the By-laws, Rules 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 employees and Approved Persons may be in non-compliance with the By-laws, Rules 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



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- (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 employees and Approved Persons with the By-laws, Rules 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 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.
- (b) Each individual designated as branch manager or alternate branch manager must submit to the jurisdiction of the 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:



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- (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 with applicable securities legislation by the Member and, its employees and 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 Rules in respect of any business of the Member, except as expressly permitted pursuant to the Rules.

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3 RULE 3 – FINANCIAL AND OPERATIONS REQUIREMENTS

3.1 Capital

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3.2 Capital and Margin

3.2.1 Client Lending and Margin

No Member or employee or Approved Person of a Member or employee or shareholder of an Incorporated Approved Person the Member sponsors shall permit the purchase of securities by a client on margin. In addition, no Member or employee or Approved Person of a Member or employee or shareholder of an Incorporated Approved Person the Member sponsors 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 individual Approved Person of the Member, or



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- (ii) a director, officer, or employee of the Member;
- (b) in the case of an Approved Person:
 - (i) they are an individual;
 - ~~(ii) they and~~ the client ~~and the Approved Person~~ are related ~~to each other for the purposes of the Income Tax Act (Canada)~~ persons; and
 - ~~(iii) the Approved Person has~~ they have 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.

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4. RULE 4 - INSURANCE

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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 individual 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.

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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;
 - (iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4; and
 - (v) evidence of client authorization.
- (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;



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- (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 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, Rule 100, and 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).

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5.3 Client Reporting

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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;



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- (iii) the period covered by the statement;
- (iv) the name of the individual 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



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- (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) **IPF Coverage.** Each account statement must include disclosure, as established by the IPF, respecting IPF coverage.

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5.4 Trade Confirmations

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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;



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- (k) the name of the individual 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.

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7 RULE 7 - DISCIPLINE

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7.3 Disciplinary Hearings

7.3.1 Notice of Hearing

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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.

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7.4 Discipline Powers

7.4.1 Power of Hearing Panels to Discipline

7.4.1.1 Approved Persons

A Hearing Panel 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;



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- (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 of the Corporation;
- (j) has engaged in any business conduct or practice which such 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.

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10 RULE 200 - MINIMUM STANDARDS FOR ACCOUNT SUPERVISION

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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 individual Approved Persons at the branch;
 - experience of individual Approved Persons at the branch;
 - trade volume/commissions earned;
 - results of previous Rule 500 branch reviews;
 - 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



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- 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 [individual](#) 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 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)~~, [related person](#) 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.



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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,



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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)~~, related person 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.

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11 RULE 300 - COMPLAINT HANDLING, SUPERVISORY INVESTIGATIONS AND INTERNAL DISCIPLINE

I. Complaints

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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.

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13 RULE 500 - BRANCH REVIEW REQUIREMENTS

Introduction

This Rule establishes minimum standards for the development and implementation of branch and sub-branch review procedures. All references to “branch” in this Rule include sub-branches as defined in 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 By-laws, the Rules and with applicable securities legislation. Under 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



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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 By-laws and Rules.

The intent of this 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 Rule will not necessarily ensure that a Member’s Branch Review Program is effective to ensure proper supervision and compliance with 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. Staff 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 the Rules.

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**

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(b) **Branch Interviews**

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(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 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)~~, related person 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.

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