

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO IMPLEMENT THE REGISTRATION REFORM PROJECT

PROPOSED AMENDMENTS

1. Dealer Member Rule 1 is amended by:
 - (a) Repealing the definitions of the terms “Designated Person”, “Sales Manager”, “Senior Officer” and “Sub branch Office” in section 1.1.
 - (b) Repealing and replacing the definitions of the terms “Applicable”, “Investment Representative” and “Registered Representative” in section 1.1 with the following:

“Applicable” in relation to a District Council means the District Council for the District:

- (1) In which the applicant for Membership or the Dealer Member has its principal office and, in the case of a holding company of a Dealer Member corporation, in which the Dealer Member corporation has its principal office;
- (2) In which the business location will be located or in which the applicant for approval as a Supervisor resides;
- (3) In which the applicant for approval as a new Executive of a Dealer Member or investor resides provided that if such Executive or investor has changed his or her place of residence to another District within 3 months prior to the change for which approval is being sought then the applicable District Council shall be the District Council for the District where the applicant formerly resided;
- (4) In which the applicant for approval as a Registered Representative or Investment Representative resides;
- (5) In which the applicant for approval as a futures contract principal, futures contract options principal or a person who deals with customers with respect to futures contracts or futures contract options resides;
- (6) In which the applicant for approval as a portfolio manager, securities option portfolio manager, futures contract options portfolio manager or futures contracts portfolio manager resides;
- (7) In which the respondent, if an individual, in a disciplinary action pursuant to Rule 20 was approved at the time the activities which are the subject of the disciplinary action primarily occurred, provided that,
 - (a) If the individual was approved in more than one District at the relevant time, and the matter which is the subject of the disciplinary action involves a client in a District where the respondent was approved other than that in which the respondent resides, in which such client resided at the time such activities occurred; or

Appendix A

- (b) If the applicable District Council cannot otherwise be determined, in which the respondent resided at the relevant time; or
- (8) In which the activities which are the subject of a disciplinary action against a respondent Dealer Member pursuant to Rule 20 primarily occurred, or, if such activities are not referable to any specific District, in which the principal office of the respondent Dealer Member is located, provided that, if a disciplinary action involves both an individual and a Dealer Member, the District Council having jurisdiction pursuant to clause (7) herein;'

“Investment Representative” means a partner, Director, Officer, employee or agent of a Dealer Member who trades in but does not advise on an investment product on behalf of the Dealer Member;'

“Registered Representative” means a partner, Director, Officer, employee or agent of a Dealer Member who trades and advises on trades in an investment product on behalf of the Dealer Member;'

- (c) Enacting definitions for the terms “Board”, “Business Location”, “Designated Supervisor”, “Director”, “Executive”, “Institutional Customer”, “Retail Customer” and “Supervisor” in alphabetical order in section 1.1 as follows:

“Board” means the board of directors of the Corporation;'

“Business Location” means a physical location at which any employee or agent of a Dealer Member conducts on a regular and ongoing basis business requiring approval of the Corporation or registration under Provincial securities legislation;'

“Designated Supervisor” means a Supervisor designated by a Dealer Member as having responsibility to fulfill a supervisory role defined in a Rule, including but not limited to:

- (1) the Supervisor designated to be responsible for the opening of new accounts and the supervision of account activity under Rule 1300.2
- (2) the Supervisor designated to be responsible for the supervision of discretionary accounts under Rule 1300.4
- (3) the Supervisor designated to be responsible for the supervision of managed accounts under Rule 1300.15
- (4) the Supervisor designated to be responsible for the supervision of options accounts under Rule 1800.2(a)
- (5) the Supervisor designated to be responsible for the supervision of futures contract accounts under Rule 1900.2
- (6) the Supervisor or Supervisors designated to pre-approve advertising, sales literature and correspondence, including research reports, under Rule 29.7(3) and Rule 3400, Guideline 7;'

Appendix A

“Director” means a member of the board of directors of, as the context dictates, a Dealer Member or the Corporation or a person performing a similar function in a Dealer Member that is not a corporation;’

“Executive” means a partner, Director or Officer of a Dealer Member who is involved in the management of the Dealer Member, including but not limited to anyone fulfilling the role of chair or a vice-chair of the board of directors, chief executive officer, president, chief administrative officer, chief financial officer, chief compliance officer, member of an executive management committee, any person in a managerial position who has authority over daily operations, or any position designated by a Dealer Member as being an Executive position;’

“Institutional Customer” means:

- (1) An Acceptable Counterparty (as defined in Form 1);
- (2) An Acceptable Institution (as defined in Form 1);
- (3) A Regulated Entity (as defined in Form 1);
- (4) A Registrant (other than an individual registrant) under securities legislation; or
- (5) A non-individual with total securities under administration or management exceeding \$25 million;’

“Retail Customer” means a customer of a Dealer Member that is not an Institutional Customer;’

“Supervisor” means a person to whom a Dealer Member has given responsibility and authority and who is approved by the Corporation to manage the activities of other partners, Directors, Officers, employees or agents of the Dealer Member so as to ensure their compliance with laws and regulations governing their and the Dealer Member’s securities-related activities;’

(d) Enacting new section 1.3 as follows:

“1.3 Where the context indicates, references to a Dealer Member include the partners, Directors, Officers, employees and agents of the Dealer Member.”

(e) Renumbering sections 1.3 through 1.5 as sections 1.4 through 1.6.

2. Dealer Member Rule 4 is repealed and replaced by:

**“RULE 4
BUSINESS LOCATIONS**

- 4.1. Every Business Location of a Dealer Member in a District having a Supervisor who is normally present at the Business Location is a Branch Office Member of the District.
- 4.2. There is no Membership or other fees for Branch Office Members.
- 4.3. A Branch Office Member has the same privileges in its District as any other Branch Office Member except that at a District meeting each Dealer Member has only one vote no matter how many Branch Office Members it has in the District.
- 4.4. The representative of any Branch Office Member in any District is eligible for election as Chair or member of the District Council of the District.
- 4.5. Each Branch Office Member may send one or more representatives to the Annual Meeting of the District.
- 4.5A. Repealed.
- 4.6. A Dealer Member must notify the Corporation in accordance with Rule 40 of the opening or closure of a Business Location.
- 4.7. Repealed.
- 4.7A. Repealed.
- 4.8. Repealed.
- 4.9. Repealed.
- 4.9A. Repealed.
- 4.10. Repealed.
- 4.11. Repealed.
- 4.12. Repealed.
- 4.13. Repealed.
- 4.14. Repealed.”

3. Dealer Member Rule 7 is repealed and replaced by:

“RULE 7

DEALER MEMBER DIRECTORS AND EXECUTIVES

7.1 Definitions

For the purposes of this Rule 7, “actively engaged in the business of the Dealer Member” means, participating in any regular business activities of the Dealer Member, but shall not include participation in meetings of the board of directors or related corporate governance committees of the board of directors or occasional referrals to the Dealer Member where such referrals do not result from solicitation of business on behalf of the Dealer Member.

7.2 Approval

No person may be a Director or Executive of a Dealer Member unless that person has been approved as such by the Corporation.

7.3 Directors

- (a) At least 40% of the Directors of a Dealer Member must:
 - (1) Either:
 - (A) Be actively engaged in the business of the Dealer Member and devote the major portion of their time to the securities industry, except those on active government services, or who for health reasons are prevented from such active engagement; or,
 - (B) Occupy equivalent positions at related or affiliated securities dealers or affiliated financial institutions;
 - and
 - (2) Have satisfied the applicable proficiency requirements in Rule 2900, Part I.A(2); and
 - (3) Have experience acceptable to the Corporation in the financial services industry for at least five years or such lesser period as may be approved by the Corporation.
- (b) The remaining Directors of a Dealer Member, if actively engaged in the business of the Dealer Member or a related company of the Dealer Member must have the qualifications described in paragraphs 7.3(a)(1) and (2).

7.4 Executives

- (a) All of the Executives of a Dealer Member must:
 - (1) Be actively engaged in the business of the Dealer Member and devote the major portion of their time to the securities industry, except those on active government services, or who for health reasons are prevented from such active engagement; or,

Appendix A

- (2) Occupy equivalent positions at related or affiliated securities dealers, or affiliated financial institutions; and
 - (3) Have satisfied the applicable proficiency requirements outlined in Rule 2900, Part I.A(2);
- (b) Not less than 60% of the Executives of a Dealer Member must have experience acceptable to the Corporation in the financial services industry for at least five years or such lesser period as may be approved by the Corporation.

7.5 Exemptions

The applicable District Council may grant an exemption, in whole or in part, from any requirement under Rules 7.3 and 7.4, where it is satisfied that to do so would not be prejudicial to the interest of the Dealer Member, its clients, the public or the Corporation and, in granting such an exemption, it may impose such terms and conditions as it considers necessary.

7.6 Persons Owning or Controlling a Significant Equity Interest in a Dealer Member

- (a) Any Director of a Dealer Member who directly or indirectly owns or controls a voting interest in the Dealer Member of 10% or more must have the proficiency requirement outlined in Rule 2900, Part I.A(2)(a);
- (b) Any person other than a Director of a Dealer Member, who is actively engaged in the business of a Dealer Member and directly or indirectly owns or controls a voting interest in the Dealer Member of 10% or more must have the proficiency requirement outlined in Rule 2900, Part I.A(2)(a).

7.7 Remuneration of Directors and Executives

No Director or Executive of a Dealer Member shall accept or permit any associate to accept, directly or indirectly, any remuneration, gratuity, advantage, benefit or any other consideration from any person other than the Dealer Member, its affiliates or related companies, in respect of the activities carried out by the Director or Executive on behalf of the Dealer Member, its affiliates or related companies in connection with the securities-related activities of any of them.

7.8 Jurisdiction

Every person whose application for approval as a Director or Executive of a Dealer Member has been accepted is subject to the jurisdiction of the Corporation, must comply with the Rules of the Corporation as they are from time to time amended or supplemented and, if such approval is subsequently revoked, must forthwith terminate his or her relationship as a Director or Executive with the Dealer Member in respect of which he or she is approved at the time of such revocation.

7.9 Late Filing Fees re Executives and Directors

A Dealer Member is liable for and must pay the Corporation fees in the amounts prescribed from time to time by the Board for the failure of the Dealer Member to file within ten business days after the end month a report

in writing with respect to the conditions imposed on approval or continued approval of a Director or Executive pursuant to Rule 20.”

4. Dealer Member Rule 18 is repealed and replaced by:

“RULE 18

REGISTERED REPRESENTATIVES AND INVESTMENT REPRESENTATIVES

18.1. Repealed.

18.2. (a) No person may act and no Dealer Member may permit any person to act as a Registered Representative or Investment Representative on behalf of the Dealer Member unless:

(i) The Dealer Member is registered or licensed to trade, as the case may be, in securities or futures contracts under the statutes relating to the sale of securities or futures contracts in all jurisdictions in which customers of the Dealer Member reside or is exempt from the registration or licensing requirements under those statutes;

(ii) The person is registered or licensed to trade, as the case may be, in securities or futures contracts under the statutes relating to the sale of securities or futures contracts in all jurisdictions in which customers of the person reside or is exempt from the registration or licensing requirements under those statutes ; and

(iii) The Corporation has approved the person as a Registered Representative or Investment Representative under this Rule.

(b) A Dealer Member must notify the Corporation of the types of businesses which a Registered Representative or Investment Representative will conduct, as follows:

(i) **Customer Type:** the types of customers the Registered Representative or Investment Representative will deal with, either:

A. retail business – taking orders from or giving advice to all types of customers regarding trades in securities, or

B. institutional business – restricted to taking orders from or giving advice to Institutional Customers

(ii) **Product(s):** the types of financial instruments in which the Registered Representative or Investment Representative will deal, being:

A. restricted to mutual funds, Government or Government-guaranteed debt instruments and deposit instruments issued by a federally-regulated bank, trust company, credit union or caisse populaire, excluding those on which all or part of the interest or return is indexed to the performance of another financial instrument or index

Appendix A

- B. general securities business, including equities, fixed income and other investment products other than options or futures
 - C. options business
 - D. futures contracts and futures contracts options
- (iii) **Portfolio Management:** whether the Registered Representative will engage in discretionary portfolio management under the provisions of Rule 1300.
- (c) A person may not conduct on behalf of a Dealer Member and a Dealer Member may not permit a person to conduct on its behalf a type of business described in (b) unless the Dealer Member has notified the Corporation:
- (i) that the person will conduct the type of business; and
 - (ii) that the person has successfully completed the proficiencies required to conduct the type of business as specified in Rule 2900, Part I within the proficiency time limits specified in Rule 2900, Part II.

For the purposes of this subsection (c), an application to the Corporation for initial approval is notice that the person will conduct the types of business identified in the application.

- 18.3. (a) An applicant for approval as a Registered Representative or Investment Representative must complete or obtain an exemption from the applicable proficiency requirements in Rule 2900, Part I, section A.3(a) before the Corporation will grant approval.
- (b) A Dealer Member must take reasonable steps to ensure that all of its Registered Representatives and Investment Representatives are proficient and understand the products they trade in or advise on to a sufficient degree to meet the requirements of the Rules of the Corporation. At a minimum, the Dealer Member must ensure that all Registered Representatives and Investment Representatives meet the applicable proficiency requirements of Rule 2900.
- 18.4. The approval of a Registered Representative is suspended automatically if the person fails to satisfy the requirement in paragraph A.3(b) of Part I of Rule 2900 until the person has satisfied the requirement.
- 18.5. Repealed.
- 18.6. (a) A Dealer Member must closely supervise a Registered Representative or Investment Representative who conducts retail business in accordance with the "Registered / Investment Representative Monthly Supervision Report" as specified by the Corporation for a period of six months after the Corporation is notified that the person will deal with retail customers. The Dealer Member must keep this report for inspection by the Corporation.
- (b) Subsection (a) does not apply if:

Appendix A

- (i) the Registered Representative was previously approved for six months or more to advise on trades for retail customers for a securities firm which is a member of a self-regulatory organization or a recognized foreign self-regulatory organization; or
 - (ii) the Investment Representative was previously approved for six months or more to advise on trades or to trade for retail customers for a securities firm which is a member of a Self-Regulatory Organization or a recognized foreign self-regulatory organization.
 - 18.7. (a) A Registered Representative or Investment Representative qualified to conduct mutual funds business only must:
 - (i) within 270 days of initial approval, complete the proficiency requirements in Rule 2900, Part I, sections A.3(a)(i)(A) and (B); and
 - (ii) within 18 months of initial approval, complete the training programme required under Rule 2900, Part I, section A.3(a)(i)(C).
 - (b) A Dealer Member must notify the Corporation:
 - (i) when a Registered Representative or Investment Representative restricted to mutual funds business only has completed the requirements in each of subsections (a)(i) and a(ii); and
 - (ii) within 18 months of initial approval, that the Registered Representative or Investment Representative will conduct either retail or institutional business without restriction to mutual funds.
 - (c) Subsections (a) and (b) do not apply to a Registered Representative or Investment Representative who was restricted to mutual funds only on the date on which this section becomes effective and who is registered only in Provinces in which a restriction on an Investment Representative or Registered Representative with a Dealer Member to mutual funds business only complies with the securities legislation, rules and policies of the Province.
 - (d) The approval of a Registered Representative or Investment Representative is suspended automatically if the person fails to satisfy the requirement in paragraph (a) until the person has satisfied the requirements and notified the Corporation.
- 18.8. Repealed.
- 18.9. Repealed.
- 18.10. Repealed.
- 18.11. (a) A Registered Representative or Investment Representative of a Dealer Member is subject to the jurisdiction of the Corporation, must comply

Appendix A

with the Rules and Rulings of the Corporation as the same are from time to time amended or supplemented.

- (b) If the approval of a Registered Representative or Investment Representative is revoked, the Registered Representative or Investment Representative must immediately cease acting as a Registered Representative or Investment Representative of his or her Dealer Member.

18.12. Repealed.

18.13. Repealed.

18.14. A Registered Representative or Investment Representative may have, and continue in, another gainful occupation if:

- (a)
 - (i) Either the Registered Representative's or Investment Representative's other gainful occupation is in a remote area where there is no office of a broker or dealer in securities and the Registered Representative's or Investment Representative's activities as such are limited to such remote area in which he or she resides; or
 - (ii) The securities commission in the jurisdiction in which the Registered Representative or Investment Representative acts or proposes to act as a Registered Representative or Investment Representative, or the securities legislation or policies administered by such securities commission, specifically permit him or her to devote less than his or her full time to the securities business of the Dealer Member employing him or her; and
- (b) Repealed.
- (c) The Dealer Member establishes and maintains procedures acceptable to the Corporation to ensure continuous service to clients and to address potential problems of conflict of interest; and
- (d) Any other occupation of the Registered Representative or Investment Representative is not
 - (i) One which would bring the securities industry into disrepute; or
 - (ii) With another dealer that is a member of a recognized self-regulatory organization unless
 - (1) Such dealer is a related company of the Dealer Member employing the Registered Representative or Investment Representative and the Dealer Member and related company provide cross-guarantees pursuant to Rule 6.6, and
 - (2) Such dual employment is not contrary to the provisions of the applicable securities legislation or any policy made pursuant thereto.

Appendix A

- 18.15. No Registered Representative or Investment Representative may accept or permit any associate to accept, directly or indirectly, any remuneration, gratuity, benefit or any other consideration from any person other than the Dealer Member or its affiliates or related companies, for the securities-related activities her or she conducts on behalf of the Dealer Member or its affiliates or its related companies.
- 18.16. No Dealer Member shall permit a Registered Representative or Investment Representative to use a designation when dealing with the public that wrongly indicates that he or she conducts or has been approved by the Corporation to conduct a type of business or fulfils or has been approved by the Corporation to fulfil a role.
- 18.17. Repealed.
- 18.18. Each Dealer Member is liable for and must pay to the Corporation fees in the amounts prescribed from time to time by the Board for the failure of the Dealer Member to file within ten business days of the end of each month a report with respect to the conditions imposed under Rule 20 on the approval or continued approval of a Registered Representative, or Investment Representative of the Dealer Member pursuant to Rule 20.”

5. Dealer Member Rule section 20.18 is repealed and replaced by:

“20.18 Powers of District Council

- (1) The District Council shall have the power, which it may delegate to a Sub-Committee of the District Council comprised of three industry members or to Corporation Staff, to:
- (a) approve an application for approval as a:
 - (i) Supervisor under Rule 4,
 - (ii) Director or Executive under Rule 7,
 - (iii) Registered Representative or Investment Representative, under Rule 18,
 - (iv) Ultimate Designated Person, Chief Financial Officer or Chief Compliance Officer under Rule 38, or
 - (v) Trader under Rule 500.
- (2) The District Council shall have the power, which it may delegate to a Sub-Committee of the District Council or to Corporation Staff, pursuant to subsection (1), to:
- (a) approve an application for approval referred to in Rule 20.18(1)(a) subject to such terms and conditions as the District Council considers just and appropriate;
 - (b) refuse an application for approval referred to in Rule 20.18(1)(a), if in its opinion:
 - (i) the Applicant does not meet any requirements prescribed by the Rules or Rulings;

Appendix A

- (ii) the Rules and Rulings of the Corporation will not be complied with by the Applicant;
 - (iii) the Applicant is not qualified for approval by reason of integrity, solvency, training or experience; or
 - (iv) such approval is otherwise not in the public interest.
 - (3) The District Council shall have the power, which it may delegate to a Sub-Committee of the District Council or to Corporation Staff, pursuant to subsection (1), to impose such terms and conditions on the continued approval of an Approved Person as the District Council considers just and appropriate.
 - (4) The District Council shall have the power, which it may delegate to a Sub-Committee of the District Council, pursuant to subsection (1), to revoke or suspend the approval of an individual at any time during the period of approval of the individual if it appears to the District Council,
 - (i) that the individual is not suitable for approval by reason of integrity, solvency, training or experience or has failed to comply with the Rules or Rulings of the Corporation; or
 - (ii) that the approval is otherwise not in the public interest.
 - (5) The District Council shall not do any of the following without giving an individual an opportunity to be heard:
 - (i) Refuse to approve the individual.
 - (ii) Impose terms and conditions on the approval, either as a condition of approval or at any time during the period in which the individual is approved.
 - (iii) Suspend or revoke the approval of the individual under (4).”
6. Dealer Member Rule section 20.19 is repealed and replaced by:

“20.19 Review Hearings

- (1) Corporation Staff, the Applicant or an Approved Person may request a review of a decision under Rule 20.18 by a Hearing Panel within ten business days after release of the decision.
- (2) If a review is not requested within ten business days after release of the decision, the decision under Rule 20.18 becomes final.
- (3) No member of a District Council who has participated in a decision under Rule 20.18 shall participate on the Hearing Panel.
- (4) A review hearing held under this Part shall be held in accordance with the Corporation Practice and Procedure.
- (5) The Hearing Panel may:
 - (a) affirm the decision;
 - (b) quash the decision;
 - (c) vary or remove any terms and conditions imposed on approval or continued approval;

Appendix A

- (d) limit the ability to re-apply for approval for such period of time as it determines just and appropriate; and
 - (e) make any decision that could have been made by the District Council pursuant to Rule 20.18.
- (6) A decision of the Hearing Panel is a decision for which no further review or appeal is provided in the Rules.”

7. Dealer Member Rule 29 is amended by:

(a) Repealing and replacing section 29.1 with the following:

“29.1. Dealer Members and each partner, Director, Officer, Supervisor, Registered Representative, Investment Representative and employee of a Dealer Member (i) shall observe high standards of ethics and conduct in the transaction of their business, (ii) shall not engage in any business conduct or practice which is unbecoming or detrimental to the public interest, and (iii) shall be of such character and business repute and have such experience and training as is consistent with the standards described in clauses (i) and (ii) or as may be prescribed by the Board.

For the purposes of disciplinary proceedings pursuant to the Rules, each Dealer Member shall be responsible for all acts and omissions of each partner, Director, Officer, Supervisor, Registered Representative, Investment Representative and employee of a Dealer Member; and each of the foregoing individuals shall comply with all Rules required to be complied with by the Dealer Member.”

(b) Repealing and replacing sections 29.5 and 29.6 with the following:

“29.5. Every director of a corporation any of whose securities are held by the public has a fiduciary obligation not to reveal any privileged information to anyone not authorized to receive it. Except to the extent referred to in the third paragraph of this Rule 29.5, a director is not released from the necessity of keeping information of this character to himself or herself until there has been full public disclosure of such information, particularly when the information might affect the market price of the corporation's securities. Any director of such corporation who is also a Director, Executive or employee of a Dealer Member should recognize that his or her first responsibility in this area is to the public corporation on whose board he or she serves and that he or she must, except to the extent referred to in the third paragraph of this Rule 29.5, meticulously avoid any disclosure of inside information to the Directors, Executives, employees, customers, or research or trading departments of the Dealer Member.

Where a representative of a Dealer Member is not a director of a corporation but is acting in an underwriting or advisory capacity to such corporation and is discussing confidential matters, his or her

Appendix A

responsibilities regarding disclosure are the same as those that would apply if such representative were a director of such corporation.

With reference to the two preceding paragraphs of this Rule 29.5, a Director or a representative, as the case may be, of a Dealer Member may consult with other personnel of the Dealer Member if a matter requires such consultation but in this event adequate measures should be taken to guard the confidential nature of the information to prevent its misuse within or outside the organization of the Dealer Member and the responsibilities of any such other personnel regarding disclosure are the same as those that would apply if such personnel were directors of the relevant corporation.

- 29.6. No Dealer Member or any Director, Executive or employee or shareholder of a Dealer Member shall give, offer or agree to give or offer, directly or indirectly, to any partner, director, officer, employee, shareholder or agent of a customer, or any associate of such persons, a gratuity, advantage, benefit or any other consideration in relation to any business of the customer with the Dealer Member, unless the prior written consent of the customer has first been obtained.”

- (c) Repealing and replacing section 29.7 (3) with the following:

“29.7 (3) The policies and procedures referred to in subsection (2) may provide that such review and supervision will be done by pre-use approval, post use review or post use sampling, as appropriate to the type of material. However, the following types of advertisements, sales literature or correspondence must be approved prior to publication or use by a one or more Supervisors specifically designated to approve each specified type of material:

- (a) Research reports,
- (b) Market letters,
- (c) Telemarketing scripts,
- (d) Promotional seminar texts (not including educational seminar texts),
- (e) Original advertisements/original template advertisements; and
- (f) Any material used to solicit clients that contain performance reports or summaries.”

- (d) Repealing and replacing section 29.12 with the following:

“29.12. Mutual Fund Sales Incentives

- (a) No Dealer Member or related company in respect of a Dealer Member, or partner, Director, Officer, Registered Representative, Investment Representative or employee of such Dealer Member or related company, shall accept from any person, directly or indirectly, any non-cash sales incentive in connection with the sale or distribution of mutual fund products.

Appendix A

- (b) No Dealer Member or related company in respect of a Dealer Member shall pay to any partner, Director, Officer, Registered Representative, Investment Representative or employee of such Dealer Member or related company any non-cash sales incentive in connection with the sale or distribution of mutual fund products.
- (c) Nothing in this Rule shall prohibit a Dealer Member or related company in respect of a Dealer Member or any partner, Director, Officer, Registered Representative, Investment Representative or employee of such Dealer Member or related company from accepting or paying, as the case may be:
 - (i) Non-cash sales incentives earned or awarded for the internal incentive programme of such Dealer Member for which eligibility is determined with respect to all services and products offered by the Dealer Member;
 - (ii) Commissions or fees payable in cash and calculated with reference only to particular sales or volumes of sales of mutual fund securities;
 - (iii) Service fees or trailing commissions;
 - (iv) Marketing materials; or
 - (v) Reasonable business promotion activities that are undertaken in the normal course and take place in the locale where the recipient is employed or resides.
- (d) For the purposes of this Rule 29.12, the term "non-cash sales incentive" shall include, without limitation, domestic or foreign trips, goods, services, gratuities, advantages, benefits or any other non-cash consideration."
- (e) Correcting the typographical error in the word "transaction" that appears on two occasions in subsection 29.14(a).
- (f) Repealing and replacing section 29.26 with the following:

"29.26

(1)

- (a) Each Dealer Member, or partner, or Director, or Officer or Approved Person of a Dealer Member shall provide to each client a Leverage Risk Disclosure Statement:
 - i) at the time a new account is opened,
 - ii) when a recommendation is made to a client to purchase securities using, in whole or in part, borrowed money, or
 - iii) when the Dealer Member, partner, Director, Officer or Approved Person of the Dealer Member becomes

Appendix A

aware of a client's intent to purchase securities using, in whole or in part, borrowed money.

- (b) The Dealer Member or partner, Director, Officer or Approved Person of the Dealer Member is not required to comply with subsection (a)(ii) or (iii) if within the preceding six month period a Leverage Risk Disclosure Statement has been provided to the client.
- (c) The Leverage Risk Disclosure Statement shall be in substantially the following words:

Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

- (2) Section 29.26(1) does not apply to the purchase of securities by a client on margin if the client's margin account is operated in accordance with the Rules of the Corporation."

(g) Repealing section 29.27.

8. Dealer Member Rule 38 is repealed and replaced by:

"RULE 38

COMPLIANCE AND SUPERVISION

38.1 A Dealer Member must establish and maintain a system to supervise the activities of each partner, Director, Officer, Registered Representative, Investment Representative, employee and agent of the Dealer Member that is reasonably designed to achieve compliance with the Rules of the Corporation and all other laws, regulations and policies applicable to the Dealer Member's securities and commodity futures business. Such a supervisory system shall provide, at a minimum, the following:

- (i) The establishment, maintenance and enforcement of written policies and procedures acceptable to the Corporation regarding the conduct of the types of business in which it engages and the supervision of each partner, Director, Officer, Registered Representative, Investment Representative, employee and agent of the Dealer Member that are reasonably designed to achieve compliance with the applicable laws, rules, regulations and policies;
- (ii) Procedures reasonably designed to ensure that each partner, Director, Officer, Registered Representative, Investment Representative, employee and agent of the Dealer Member understands his or her responsibilities under the written policies and procedures in (i);
- (iii) Procedures to ensure that the written policies and procedures of the Dealer Member are amended as appropriate within a reasonable time

Appendix A

- after changes in applicable laws, regulations, rules and policies and that such changes are communicated to all relevant personnel;
- (iv) Sufficient personnel and other resources to fully and properly enforce the written policies and procedures in (i);
 - (v) The designation of Supervisors with the qualifications and authority to carry out the supervisory responsibilities assigned to them. Each Dealer Member shall maintain an internal record of the names of all Supervisors, the scope of their responsibility and the dates for which such responsibility and authority is or was in effect. The records must be preserved by the Dealer Member for seven years, and on-site for the first year;
 - (vi) Procedures for follow-up and review to ensure that supervisory personnel are properly executing their supervisory functions. Where the supervision is conducted and supervisory records are maintained at a branch office, the follow-up and review procedures shall include periodic on-site reviews of branch office supervision and record-keeping as necessary depending on the types of business and supervision conducted at the branch office;
 - (vii) The maintenance of adequate records of supervisory activity, including on-site reviews of branch offices as described in (vi), compliance issues identified and the resolution of those issues.
- 38.2 (a) A Dealer Member must appoint as many Supervisors as are necessary to properly supervise the Officers, partners, employees and agents of the Dealer Member, taking into account the scope and complexity of its businesses to ensure that the businesses of the Dealer Member are carried out in compliance with the Rules and Rulings of the Corporation and any other laws or regulations governing the Dealer Member's business conduct.
- (b) A Dealer Member must take reasonable steps to ensure that all of its Supervisors are proficient and understand the products that persons under their supervision trade in or advise on and the services that persons under their supervision provide to a sufficient degree to properly supervise those persons. At a minimum, the Dealer Member must ensure that all Supervisors meet the applicable proficiency requirements of Rule 2900.
- 38.3 (a) No person may act and no Dealer Member may permit a person to act as a Supervisor without the approval of the Corporation.
- (b) Failure to satisfy sub-clause A.1(a)(ii)D of Part I of Rule 2900 will result in the automatic suspension of approval. Approval will be reinstated only at such time as the individual has satisfied the applicable proficiency requirement and notified the Corporation.
- 38.4 (a) A Supervisor must fully and properly supervise each partner, Director, Officer, Registered Representative, Investment Representative or agent in accordance with the supervisory responsibilities assigned to the Supervisor, the Rules of the Corporation and the written policies and procedures of the Dealer Member so as to ensure their compliance

Appendix A

with the Rules of the Corporation and all other laws, regulations and policies applicable to the Dealer Member's securities and commodity futures business.

- (b) A Supervisor may delegate specific supervisory functions or procedures, provided that:
 - (i) the delegation of such functions is not contrary to applicable laws, regulations, rules or policies;
 - (ii) the person to whom such functions are delegated is qualified by virtue of registration, training or experience to properly execute them;
 - (iii) the Supervisor conducts sufficient follow-up and review to ensure that the person to whom the functions have been delegated is properly executing them; and
 - (iv) the Dealer Member records the terms of the delegation and the follow up and review.

38.5 **Ultimate Designated Person**

- (a) A Dealer Member must designate an individual who is approved under the Corporation's rules in the category of Ultimate Designated Person and who shall be responsible to the Corporation for the conduct of the firm and the supervision of its employees and to perform the functions described in paragraph (c).
- (b) A Dealer Member must not designate an individual to act as the firm's Ultimate Designated Person unless the individual is:
 - (i) the chief executive officer or sole proprietor of the Dealer Member;
 - (ii) an Officer in charge of a division of the Dealer Member, if the activity that requires the firm to register under provincial or territorial securities laws occurs only within the division, or
 - (iii) an individual acting in a capacity similar to that of an Officer described in paragraph (a) or (b).
- (c) The Ultimate Designated Person must
 - (i) supervise the activities of the Dealer Member that are directed towards ensuring compliance with the Corporation's Dealer Member rules and applicable securities law requirements by the firm and each individual acting on the Dealer Member's behalf, and
 - (ii) promote compliance by the Dealer Member, and individuals acting on its behalf, with the Corporation's Dealer Member rules and applicable securities laws.

38.6 **Chief Financial Officer**

- (a) Each Dealer Member must, subject to the approval of the Corporation, appoint one Executive as Chief Financial Officer who, in addition to the requirements under Rule 7.4(a), must have met the proficiency requirements of Rule 2900, Part I, section A.2A. The Chief Financial

Appendix A

Officer need not be engaged full time in the business of the Dealer Member.

- (b) Notwithstanding subsection (a), if the Chief Financial Officer of a Dealer Member terminates his/her employment with the Dealer Member and the Dealer Member is unable to immediately appoint another qualified person as Chief Financial Officer, the Dealer Member may, with the Corporation's approval, appoint an Executive as Acting Chief Financial Officer, provided that within 90 days of the termination:
 - (1) the Acting Chief Financial Officer meets the requirement of subsection (a) and is approved by the Corporation as Chief Financial Officer; or
 - (2) another qualified person is appointed Chief Financial Officer by the Dealer Member and approved by the Corporation.
- (c) The Chief Financial Officer must monitor adherence to the Dealer Member's policies and procedures as necessary to provide reasonable assurance that the Dealer Member complies with the financial rules of the Corporation.

38.7 Chief Compliance Officer

- (a) Every Dealer Member must designate an individual who is approved under the Corporation's rules in the category of Chief Compliance Officer to perform the functions described in paragraph (h).
- (b) A Dealer Member must not designate an individual to act as the firm's Chief Compliance Officer unless the individual is one of the:
 - (i) an Officer or partner of the Dealer Member;
 - (ii) the sole proprietor of the Dealer Member.
- (c) A Dealer Member may appoint the Ultimate Designated Person to act as the Chief Compliance Officer.
- (d) Where a Dealer Member is organized into two or more separate business units or divisions, a Dealer Member may, with the approval of the Corporation, designate a Chief Compliance Officer for each separate business unit or division.
- (e) The Chief Compliance Officer must have the qualification required under Rule 2900, Part I, section A.2B.
- (f) Notwithstanding subsection (a), a Dealer Member may, with the Corporation's approval, designate an Officer as Acting Chief Compliance Officer if the Chief Compliance Officer terminates his or her employment with the Dealer Member and the Dealer Member is unable to immediately designate another qualified person as Chief Compliance Officer provided that, within 90 days of the termination of the previous Chief Compliance Officer:
 - (i) the Acting Chief Compliance Officer meets the requirement of subsection (e) and is designated by the Corporation as Chief Compliance Officer; or

Appendix A

- (ii) another qualified person is designated Chief Compliance Officer by the Dealer Member and is approved by the Corporation.
 - (g) The Corporation may grant to a Dealer Member an exemption from subsection (e) where it is satisfied that the nature of the Dealer Member's business is such that the qualification is not relevant to the Dealer Member and that to do so would not be prejudicial to the interests of the Dealer Member, its clients, the public or the Corporation. In granting such an exemption, it may impose such terms and conditions as it considers necessary.
 - (h) The Chief Compliance Officer of a Dealer Member must do all of the following:
 - (i) establish and maintain policies and procedures for assessing compliance with the Rules and applicable securities laws by the Dealer Member and individuals acting on its behalf;
 - (ii) monitor and assess compliance by the Dealer Member, and individuals acting on its behalf, with the Rules and applicable securities laws;
 - (iii) report to the Ultimate Designated Person as soon as possible if the Chief Compliance Officer becomes aware of any circumstances indicating that the firm, or any individual acting on its behalf, may be in non-compliance with the Rules or applicable securities laws and
 - (A) the non-compliance creates a reasonable risk of harm to a client;
 - (B) the non-compliance creates a reasonable risk of harm to the capital markets; or
 - (C) the non-compliance is part of a pattern of non-compliance;
 - (iv) submit an annual report to the firm's board of directors, or individuals acting in a similar capacity for the firm, for the purposes of assessing compliance by the firm, and individuals acting on its behalf, with the Corporation's Dealer Member rules and applicable securities laws.
 - (i) The Chief Compliance Officer must have access to the Ultimate Designated Person and the board of directors (or equivalent) at such times as the Chief Compliance Officer may consider necessary or advisable in view of his or her responsibilities.
- 38.8 The board of directors (or equivalent) of the Dealer Member must review the report of the Chief Compliance Officer and determine what actions are necessary to rectify any compliance deficiencies noted in the report and ensure such actions are carried out. The board of directors (or equivalent) must maintain records of the actions it determines to be necessary and the monitoring to ensure that those actions are carried out.
- 38.9 A Dealer Member must file with the Corporation:

Appendix A

- (a) A copy of a governance document setting out the organizational structure and reporting relationships, which support the compliance arrangement set out above; and
- (b) Notice of any material changes to the organizational structure and reporting relationships as set out in subsection (a)."

9. Dealer Member Rule 40 is amended by:

- (a) Repealing and replacing paragraphs (3) through (7) of section 40.1 with the following:

- “(3) “Form 33-109F1” means Form 33-109F1 *Notice of Termination of Registered Individuals and Permitted Individuals* mandated by NRD National Instrument 33-109.
- (4) “Form 33-109F2” means Form 33-109F2 *Change or Surrender of Individual Categories* mandated by NRD National Instrument 33-109.
- (5) “Form 33-109F3” means Form 33-109F3 *Business Locations other than Head Office* mandated by NRD National Instrument 33-109.
- (6) “Form 33-109F4” means Form 33-109F4 *Registration of Individuals and Review of Permitted Individuals* mandated by NRD National Instrument 33-109.
- (7) “Form 33-109F5” means Form 33-109F5 *Change of Registration Information* mandated by NRD National Instrument 33-109.”

- (b) Enacting new paragraph (8) of section 40.1 as follows:

- “(8) “Form 33-109F7” means Form 33-109F7 *Reinstatement of Registered Individuals and Permitted Individuals* mandated by NRD National Instrument 33-109.”

- (c) Renumbering existing paragraphs (8) and (9) of section 40.1 as paragraphs (9) and (10);

- (d) Repealing existing paragraph (10) of section 40.1;

- (e) Repealing and replacing existing paragraphs (13) and (14) of section 40.1 with the following:

- (13) "NRD National Instrument 31-102" means National Instrument 31-102 *National Registration Database* adopted by the Canadian securities regulatory authorities.
- (14) "NRD National Instrument 33-109" means National Instrument 33-109 *Registration Information* adopted by the Canadian securities regulatory authorities.

- (f) Repealing existing paragraph (17) and (18) of section 40.1;
- (g) Repealing and replacing sections 40.2 through 40.5 with the following:

“40.2 Obligations of Dealer Members regarding the National Registration Database

- (1) Each Dealer Member shall
 - (a) enrol in NRD and pay to the NRD Administrator an enrolment fee calculated as prescribed by the Board;
 - (b) have one and no more than one chief AFR enrolled with the NRD Administrator;
 - (c) maintain one and no more than one NRD account;
 - (d) notify the NRD Administrator of the appointment of a chief AFR within 7 days of the appointment;
 - (e) notify the NRD Administrator of any change in the name of the firm's chief AFR within 7 days of the change;
 - (f) submit any change in the name of an AFR, other than the firm's chief AFR, in NRD format within 7 days of the change; and
 - (g) submit any change in the phone number, fax number or e-mail address of the chief AFR in NRD format within 7 days of the change.

40.3 Approvals and Notifications

- (1) Each Dealer Member making an application for approval of an individual in any capacity required under any Rule of the Corporation or an application for reinstatement of approval shall make such application to the Corporation through the NRD on Form 33-109F4 or Form 33-109F7 as applicable.
- (2) Each Dealer Member making an application under subsection (1) shall be liable for and pay such fees as are prescribed from time to time by the Board, including but not limited to application fees payable to the NRD Administrator for use of the NRD for the making of such an application.
- (3) Any fees payable to the Corporation or to the NRD Administrator pursuant to subsection (3) above shall be submitted by electronic pre-authorized debit through NRD.

40.4 Change of Approval Category or Type of Business

- (1) Each Dealer Member making an application for approval of any Approved Person in a different or additional capacity requiring approval under any Rule of the Corporation or to surrender an existing approval shall make such application to the Corporation through the NRD on Form 33-109F2.

Appendix A

- (2) Each Dealer Member making an application under subsection (1) shall be liable for and pay such change of status fees as are prescribed from time to time by the Board, including but not limited to application fees payable to the NRD Administrator for use of the NRD for the making of such an application.
- (3) Any fees payable to the Corporation or the NRD Administrator pursuant to subsection (2) above shall be submitted by electronic pre-authorized debit through NRD.
- (4) Each Dealer Member must notify the Corporation through NRD on Form 33-109F2 when an Approved Person changes the type of business in which he or she engages or customer type as described in Rule 18.2(b).
- (5) Prior to providing notice of a change in the type of business in which an Approved Person will engage, a Dealer Member must ensure that it has notified the Corporation through NRD of the successful completion of the proficiency requirements under Rule 2900 necessary to undertake the type of business or that the Approved Person has been granted an exemption from the proficiency requirements under Rule 2900 and Rule 20.

40.5 Report of Changes pursuant to Rule 3100

- (1) Each Dealer Member making a report of a change regarding an Approved Person required pursuant to section I.B.1(a) of Rule 3100 of the Corporation shall make the report through the NRD on Form 33-109F5 in the time required pursuant to NRD National Instrument 33-109.”

(h) Repealing and replacing sections 40.7 and 40.8 with the following:

“40.7 Termination of Approved Persons

- (1) Each Dealer Member shall notify the Corporation of the termination of the Dealer Member’s employment or principal/agent relationship with any individual approved in any capacity under any Rule of the Corporation through the NRD on Form 33-109F1 within the time period and in the manner prescribed in NRD National Instrument 33-109 for a registered firm, as defined in NRD National Instrument 33-109, to notify the regulator of the same type of event.
- (2) If an Approved Person ceases to have an employment, partnership or agency relationship with a Dealer Member, the individual’s approval with the Dealer Member is suspended until reinstated by the Corporation or under the Rules of the Corporation.
- (3) Despite 40.3(1), the approval of an individual suspended under paragraph (2) is reinstated on the date the individual submits a completed Form 33-109F7 in accordance with NRD National Instrument 31-102 if:

Appendix A

- (a) the Form 33-109F7 is submitted on or before the 90th day after the cessation date;
 - (b) after the cessation date there have been no changes to the information previously submitted in respect of any of the following items of the individual's Form 33-109F4:
 - (A) item 13 [*Regulatory disclosure*];
 - (B) item 14 [*Criminal disclosure*];
 - (C) item 15 [*Civil disclosure*];
 - (D) item 16 [*Financial disclosure*];
 - (c) the individual's employment, partnership or agency relationship with the former sponsoring firm did not end because the individual was asked by the firm to resign, or was dismissed, following an allegation against the individual of any of the following:
 - (A) criminal activity,
 - (B) a breach of securities laws, or
 - (C) a breach of the rules of the Corporation;
 - (d) the individual is seeking reinstatement in the same category of approval in which the individual was approved on the cessation date.
- (4) Each Dealer Member shall be liable for and pay to the Corporation fees in the amounts prescribed from time to time by the Board for the failure of the Dealer Member to file a notification required under subsection (1) above within the time period referred to in subsection (1).
 - (5) Any fees payable to the Corporation pursuant to subsection (4) above shall be submitted by electronic pre-authorized debit through NRD.

40.8 Notification of Opening or Closing of a Business Location

- (1) Each Dealer Member required to notify the Corporation of the opening or closing of a Business Location pursuant to Rule 4.6 must do so through the NRD on Form 33-109F3 within the time period prescribed in NRD National Instrument 33-109 for a registered firm, as defined in NRD National Instrument 33-109, to notify the regulator of the opening or closing, as applicable, of a business location.
- (2) Each Dealer Member must notify the Corporation through the NRD of any change in the address or supervision of any Business Location within the time period prescribed in NRD National Instrument 33-109 for a registered firm, as defined in NRD National Instrument 33-109, to notify the regulator of a change in a business location."

- (i) Repealing section 40.10.

- (j) Repealing and replacing sections 40.11 and 40.12 with the following:

“40.11 Temporary Hardship Exemption

- (1) If unanticipated technical difficulties prevent a Dealer Member from making a submission in NRD format within the time required under this Rule 40, the Dealer Member is exempt from the requirement to make the submission within the required time period, if the Dealer Member makes the submission in another format than through the NRD website no later than 7 days after the day on which the information was required to be submitted.
- (2) If unanticipated technical difficulties prevent a Dealer Member from submitting an application in NRD format, the Dealer Member may submit the application in another format than through the NRD website.
- (3) If a Dealer Member makes a paper format submission under this section, the Dealer Member must include the following legend in capital letters at the top of the first page of the submission:

IN ACCORDANCE WITH CORPORATION RULE 40.11
AND SECTION 5.1 OF NATIONAL INSTRUMENT 31-
102 NATIONAL REGISTRATION DATABASE (NRD),
THIS [SPECIFY DOCUMENT] IS BEING SUBMITTED IN
PAPER FORMAT UNDER A TEMPORARY HARSHIP
EXEMPTION.
- (4) If a Dealer Member makes a submission other than through the NRD website under this section, the Dealer Member must resubmit the information in NRD format as soon as practicable and in any event within 14 days after the unanticipated technical difficulties have been resolved.

40.12 Due Diligence and Record Keeping

- (1) Each Dealer Member must make reasonable efforts to ensure that information submitted in any submission through the NRD is true and complete.
- (2) Each Dealer Member must retain all documents used by the Dealer Member to satisfy its obligation under subsection (1) for a period of no less than 7 years after the individual ceases to be an Approved Person of the Dealer Member.
- (3) A Dealer Member that retains a document under subsection (2) in respect of an NRD submission must record the NRD submission number on the document.
- (4) A Dealer Member must obtain from each individual who is approved to act on behalf of the firm a copy of the Form 33-109F1 most recently submitted by the individual’s former sponsoring firm in respect of that individual, if any, within 60 days of the firm becoming the individual’s sponsoring firm.

10. Dealer Member Rule 1300 is amended by:

(a) Repealing and replacing section 1300.1(b) with the following:

- “(b) When opening an initial account for a corporation or similar entity, the Dealer Member shall:
- (i) ascertain the identity of any individual who is the beneficial owner of, or exercises direct or indirect control or direction over, more than 10% of the corporation or similar entity, including the name, address, citizenship, occupation and employer of each such beneficial owner, and whether any such beneficial owner is an insider or controlling shareholder of a publicly traded corporation or similar entity; and
 - (ii) as soon as is practicable after opening the account, and in any case no later than six months after the opening of the account, verify the identity of each individual identified in (i) using such methods as enable the Dealer Member to form a reasonable belief that it knows the true identity of each individual and that are in compliance with any applicable legislation and regulations of the Government of Canada or any province.”

(b) Repealing and replacing sections 1300.2 through 1300.8 with the following:

“1300.2.

- (a) A Dealer Member must designate a Supervisor to be responsible for the opening of new accounts and for establishing and maintaining procedures acceptable to the Corporation for account supervision to ensure that the handling of client business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the interests of the securities industry. As part of this supervision each new account must be opened pursuant to a new account form which includes the applicable information required by Form No. 2 for Retail Customer accounts, Institutional Customer accounts and for accounts exempt from suitability reviews.
- (b) Where a Dealer Member conducts more than one of retail business, institutional business and suitability-exempt business under Rules 1300.1(t) and 3200.B, the Dealer Member may designate separate Supervisors for each type of business.
- (c) The Supervisor designated under this section or another Supervisor assigned the responsibility for doing so in the policies and procedures of the Dealer Member must approve and record the approval of the opening of an account prior to or promptly after the completion of any transaction.

Discretionary and Managed Accounts

Appendix A

1300.3. In this Rule 1300 unless the context otherwise requires, the expression:

“discretionary account” means an account of a customer other than a managed account in respect of which a Dealer Member or any person acting on behalf of the Dealer Member exercises any discretionary authority in trading by or for such account, provided that an account shall not be considered to be a discretionary account for the sole reason that discretion is exercised as to the price at which or time when an order given by a customer for the purchase or sale of a definite amount of a specified security, option, futures contract or futures contract option shall be executed;

“futures contracts managed account” means a managed account which includes only investments in commodity futures contracts or commodity futures contract options;

“investment” includes a commodity futures contract and a commodity futures contract option;

“managed account” means any account solicited by a Dealer Member in which the investment decisions are made on a continuing basis by the Dealer Member or by a third party hired by the Dealer Member;”

“portfolio manager” means a Registered Representative exercising discretionary authority over a managed account;

“responsible person” means a partner, Director, Officer, employee or agent of a Dealer Member who:

- (a) exercises discretionary authority over the account of a client or approves discretionary orders for an account when exercising such discretion or giving such approval pursuant to Rule 1300.4, or
- (b) participates in the formulation of, or has prior access information regarding investment decisions made on behalf of or advice given to a managed account

but does not include a sub-adviser under Rule 1300.7(a)(ii);

1300.4. A Registered Representative may not exercise discretionary authority over a customer account unless:

- (a) the Dealer Member has designated a Supervisor or Supervisors to be responsible for discretionary accounts;
- (b) the customer has given prior written authorization in compliance with in compliance with Rule 1300.5;
- (c) a Supervisor designated under subsection (a) has approved the account as a discretionary account and recorded that approval;
- (d) the Registered Representative authorized to effect discretionary trades for the account has actively dealt in, advised on or performed analysis for a period of two years with respect to all types of products which are to be traded on a discretionary basis; and

Appendix A

- (e) the account is maintained at the Dealer Member of the Registered Representative.

1300.5. The prior written authorization provided for by clause (a) of Rule 1300.4 must:

- (a) define the extent of the discretionary authority which has been given to the Dealer Member;
- (b) except for a managed account, have a term of no more than twelve months, unless the Dealer Member has satisfied the Corporation that a longer term is appropriate and the customer is aware of such longer term;
- (c) except for a managed account, only be renewable in writing;
- (d) only be terminated by the customer by notice in writing, effective on receipt of the notice by the Dealer Member except with respect to transactions entered into prior to the receipt; and
- (e) only be terminated by the Dealer Member by notice in writing, effective not less than 30 days from the date of delivery to the customer.

1300.6. In addition to any other account supervision requirements under the Rules, the Designated Supervisor must review at least monthly the financial performance of each discretionary account other than a managed account, including a review to determine whether any person permitted to effect discretionary trades for the account should continue to do so. The Designated Supervisor may not delegate the conduct of the review to any other person.

1300.7. A Dealer Member may not exercise any discretionary authority with respect to a managed account unless:

- (a) the individual who is responsible for the management of the account is:
 - (i) a portfolio manager; or
 - (ii) a sub-adviser with which the Dealer Member has entered into a written sub-adviser agreement, provided that
 - A. the sub-adviser is an individual or firm registered in the jurisdiction in which it resides, in a category of registration that permits the person or company to provide discretionary portfolio management services or as a broker or investment dealer active as a portfolio manager; and
 - B. the Dealer Member has determined that the sub-adviser is subject to legislation or regulations containing conflict of interest provisions at least equivalent to Rules 1300.18 and 1300.19 or has entered into an agreement with the sub-adviser that the sub-adviser will comply with Rules 1300.18 and 1300.19.

Appendix A

- (b) the client has signed a managed account agreement in accordance with Rule 1300.8
- (c) the Supervisor designated under Rule 1300.15(b) or in the Dealer Member's policies and procedures has specifically approved the account as a managed account and the approval has been recorded in writing;
- (d) the Dealer Member has provided to the accountholder a copy of its policy ensuring fair allocation of investment opportunities.

1300.8. The managed account agreement provided for by clause (b) of Rule 1300.7 must:

- (a) describe the investment objectives and risk tolerance of the customer with respect to the managed account or accounts;
- (b) where permitted by the Dealer Member, describe any constraints imposed by customer on investments to be made in the managed account or accounts;
- (c) only be terminated by the customer by notice in writing, effective on receipt by the Dealer Member except with respect to transactions entered into prior to the receipt; and
- (d) only be terminated by the Dealer Member by notice in writing, effective not less than 30 days from the date of delivery of the notice to the customer."

(c) Repealing sections 1300.9 through 1300.14;

(d) Repealing and replacing sections 1300.15 through 1300.17 with the following:

"1300.15. A Dealer Member that has managed accounts or futures contracts managed accounts must establish and maintain a system acceptable to the Corporation to supervise the activities of those responsible for the management of such accounts under Rule 1300.7. The system must be reasonably designed to achieve compliance with the Rules and Forms of the Corporation. A Dealer Member firm's supervisory system must provide, at a minimum, for the following:

- (a) the establishment and maintenance of written procedures, including:
 - (i) procedures designed to disclose when a responsible person has contravened Rules 1300.18 or 1300.19;
 - (ii) procedures to ensure fairness in the allocation of investment opportunities among its managed accounts;
- (b) the designation of one or more Supervisors specifically responsible for the supervision of managed accounts.
- (c) direct supervision of any Registered Representative providing discretionary management to managed accounts who has less than two years experience providing such discretionary

Appendix A

management, including at least one year managing on a discretionary basis more than \$5 million in assets, by

- (i) a Registered Representative at the Dealer Member or another Dealer Member who is authorized to provide discretionary management to managed accounts and who is not in the period of supervision, or
- (ii) a person registered as an advisor under Canadian securities legislation who has entered into a contract with the Dealer Member to provide the supervision.

The period of experience includes any period spent providing discretionary management as a registered advisor under Canadian securities legislation or while employed by a government-regulated institution.

- (d) in addition to any other account supervision requirements under the Rules, a review by the Designated Supervisor with respect to each managed account, to be conducted at least quarterly, to ensure that the investment objectives of the client are being diligently pursued and that the managed account or futures contracts managed account is being conducted in accordance with the Rules. The review may be conducted at an aggregate level for managed accounts for which key investment decisions are made centrally and applied across a number of managed accounts, subject to minor variations to allow for client-directed constraints and the timing of client cash flows into the managed account.
- (e) the establishment of a committee, including at least the Designated Supervisor of managed accounts and the Chief Compliance Officer, that shall review at least annually the supervisory system and procedures for managed accounts and recommend to senior management any action necessary to achieve the Dealer Member's compliance with applicable securities legislation and with the Rules and Forms of the Corporation.

1300.16.A Dealer Member may charge a client directly for services rendered to a managed account but, except with the written agreement of the client, the charge may not be based on the volume or value of transactions initiated for the account or be contingent upon profits or performance.

1300.17.A Dealer Member may not pay remuneration to anyone managing a managed account that is computed on the basis of the value or volume of transactions in the account.”

- (e) Repealing and replacing sections 1300.20 and 1300.21 with the following:

“1300.20.Where investment decisions are made centrally and applied across a number of managed accounts, Rule 29.3A does not apply to the managed accounts of partners, Directors, Officers, Approved Persons, employees or agents of the Dealer Member who participate on the

Appendix A

same basis as client accounts in the implementation of those decisions.

1300.21. Except as specifically permitted in the Rules or Rulings, a Dealer Member may not charge a customer a fee that is contingent upon the profit or performance of the customer's account.”

11. Dealer Member Rule 1800 is amended by:

(a) Repealing the definition of the term “Dealer” in section 1800.1.

(b) Repealing and replacing section 1800.2 with the following:

“1800.2.(a) A Dealer Member that trades in futures contracts or futures contract options on behalf of customers must designate a Supervisor qualified to supervise trading in futures contracts and futures contract options to be responsible for the opening of new accounts and establishing and maintaining procedures acceptable to the Corporation for account supervision to ensure that the handling of client business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the interests of the securities industry.

(b) A Dealer Member must enter into a futures contract trading agreement or futures contract options trading agreement in compliance with Rule 1800.9 with a customer before effecting the customer’s initial trade in futures contracts or futures contract options;

(c) The Supervisor designated under Rule 1800.2(a) or another Supervisor qualified to supervise futures contracts or futures contract options trading must approve the opening of the account of each customer of the Dealer Member for trading in futures contracts or futures contract options before the customer’s first trade in futures contracts or futures contract options.

(d) A Dealer Member must:

(i) provide to each customer the then current risk disclosure statement approved by the Corporation and obtain from the customer acknowledgement of its receipt before the customer’s initial trade in futures contracts or futures contract options

(ii) distribute to each customer having a futures contract or futures contract options account any amendments to the risk disclosure statement approved by the Corporation; and

(iii) maintain records showing the names and addresses of all persons to whom a current risk disclosure statement or an

Appendix A

amendment thereto has been provided and the date or dates on which they were provided;

- (e) A Dealer Member must have systems and procedures to ensure that in normal circumstances customers of the Dealer Member have access at any time during usual business hours to a Registered Representative or Investment Representative, as appropriate to the services provided to the client, qualified to advise on or trade in futures contracts or futures contract options and registered as necessary in the jurisdiction in which the client resides.
- (f) A Dealer Member must obtain the approval of the Corporation of its accounting, settlement and credit control systems for trading in futures contracts or futures contract options for customer and firm accounts with respect to futures contracts or futures contract options before trading in futures contracts or futures contract options.”

(c) Repealing sections 1800.3, 1800.5 and 1800.6

(d) Repealing and replacing sections 1800.7 through 1800.11 with the following:

“1800.7.A Dealer Member that trades in futures contracts must file any reports that are required by the Corporation. A Dealer Member must report to the Corporation on a form of monthly position report approved by the Corporation the greater of the market value of the total long or the total short futures contracts for each commodity, determined as at the close of business on the last day of each month or, where that day is not a trading day, on the next preceding trading day.

1800.8. A Registered Representative or Investment Representative must identify all non-customer orders entered for the purchase or sale of futures contracts or futures contract options. A "non-customer" order is an order for an account in which the Dealer Member or any Approved Person of the Dealer Member has a direct or indirect interest other than an interest in the commission charged.

1800.9. The account agreement required in Rule 1800.2(b) must define the rights and obligations between the Dealer Member and the customer on the subjects that the Corporation may from time to time determine, including the following:

- (a) The rights of the Dealer Member to exercise discretion in accepting orders;
- (b) The Dealer Member’s obligation with respect to errors and/or omissions and qualification of the time periods during which orders will be accepted for execution;
- (c) The customer’s obligation in respect of the payment of his or her indebtedness to the Dealer Member and the maintenance of adequate margin and security, including the conditions under which the funds, securities or other property held in the account

Appendix A

or any other accounts of the customer may be applied to such indebtedness or margin;

- (d) The obligation of the customer in respect of commissions, if any, on futures contracts or futures contract options bought and sold for his or her account;
- (e) The obligation of the customer in respect of the payment of interest, if any, on debit balances in his or her account;
- (f) The extent of the right of the Dealer Member to make use of free credit balances in the customer's account either in its own business or to cover debit balances in the same or other accounts, and the consent, if given, of the customer to the Dealer Member taking the other side to the customer's transactions from time to time;
- (g) The rights of the Dealer Member in respect of raising money on and pledging securities and other assets held in the customer's account;
- (h) The extent of the right of the Dealer Member to otherwise deal with securities and other assets in the customer's account and to hold the same as collateral security for the customer's indebtedness;
- (i) The customer's obligation to comply with the rules pertaining to futures contracts or futures contract options with respect to reporting, position limits and exercise limits, as applicable, as established by the commodity futures exchange on which such futures contracts or futures contract options are traded or its clearing house;
- (j) The right of the Dealer Member, if so required, to provide regulatory authorities with information and/or reports related to reporting limits and position limits;
- (k) The acknowledgement by the customer that he or she has received the current risk disclosure statement required by Rule 1800.2(d);
- (l) The right of the Dealer Member to impose trading limits and to close out futures contracts or futures contract options under specified conditions;
- (m) That minimum margin will be required from the customer in such amounts and at such times as the commodity futures exchange on which a contract is entered or its clearing house may prescribe and in such greater amounts at other times as prescribed by the Rules and as determined by the Dealer Member, and that such funds or property may be commingled and used by the Dealer Member in the conduct of its business;
- (n) In the case of futures contract options accounts, the method of allocation of exercise assignment notices and the customer's obligation to instruct the Dealer Member to close out contracts prior to the expiry date; and

Appendix A

- (o) Unless provided for in a separate agreement, the authority, if any, of the Dealer Member to effect trades for the customer on a discretionary basis, which authority shall be separately acknowledged in a part of the agreement prominently marked off from the remainder and shall not be inconsistent with any Rules relating to discretionary accounts.

1800.10. Rule 1800.9 does not apply to the opening of a futures contracts or futures contract options account where the customer is a dealer on its own behalf, a dealer on behalf of its customer if the dealer is required to maintain with its customer an account agreement substantially similar to that described in Rule 1800.9, an adviser registered under any applicable legislation relating to trading or advising in respect of futures contracts or futures contract options, an acceptable institution or an acceptable counter-party, provided the Dealer Member has obtained from the customer a letter of undertaking specifying:

- (a) That the person opening the account will comply with the by-laws, rules and regulations of the exchange and clearing house upon or through which trades in contracts are to be effected including without limitation, the rules and regulations establishing position and reporting limits; and
- (b) Where the customer also maintains with the same Dealer Member an account on which the customer is charged interest when there is a debit balance in the account, the conditions under which transfers of funds, securities or other property held in such other account will be made between accounts, unless provision is made elsewhere in a document signed by the person opening the account.

1800.11(a) A Dealer Member must keep a record of any order or other instruction given or received with respect to a trade in a futures contract or futures contract option, whether executed or unexecuted, showing:

- (i) the terms and conditions of the order or instruction and any modification or cancellation of the order or instruction;
- (ii) the account to which the order or instruction relates;
- (iii) where the order relates to an omnibus account, the component accounts within the omnibus account on whose behalf the order is to be executed;
- (iv) where the order or instruction is placed by a person other than the customer in whose name the account is operated, the name, or designation, of the party placing the order or instruction;
- (v) the time of the entry of the order or instruction, and, where the order is entered pursuant to the exercise of discretionary authority by the Dealer Member, identification to that effect;

Appendix A

- (vi) to the extent feasible, the time of altering instructions or cancellation; and
 - (vii) the time of report of execution.
- (b) A Dealer Member must keep in a form accessible to the Corporation the records of all unexecuted orders for two years and all executed orders for seven years from the date of the order.”

12. Dealer Member Rule 1900 is amended by:

(a) Repealing and replacing sections 1900.1 and 1900.2 with the following:

“1900.1. For the purposes of this Rule 1900, unless the subject matter or content otherwise requires:

“Option” means a call option or put option issued by the Canadian Derivatives Clearing Corporation, The Options Clearing Corporation or any other corporation or organization recognized by the Board for the purposes of this Rule but does not include a futures contract or futures contract option as defined in Rule 1800.1.

- 1900.2. (a) A Dealer Member that trades in options on behalf of customers must designate a Supervisor qualified to supervise options trading to be responsible for approving customer accounts to trade in options and for establishing and maintaining procedures acceptable to the Corporation for the supervision of account activity involving options, to ensure that the handling of customer business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the interests of the securities industry;
- (b) A Dealer Member must enter into an options trading agreement in compliance with Rule 1900.6 with a customer before effecting the customer’s initial trade in options;
- (c) The Supervisor designated under Rule 1900.2(a) or another Supervisor qualified to supervise options trading must approve each customer account of the Dealer Member for trading in options before the customer’s first trade in options;
- (d) A Dealer Member must:
- (i) provide to each customer the then current disclosure approved by the Corporation and obtain from the customer acknowledgement of its receipt before the customer’s first trade in options;
 - (ii) provide to each customer having an account approved for options trading any amendments to the disclosure document in subsection (i); and
 - (iii) maintain records showing the names and addresses of all persons to whom a current disclosure statement or an

Appendix A

amendment thereto has been provided and the date or dates on which they were provided.

- (e) A Dealer Member must comply with the applicable rules and rulings of any exchange, clearing corporation or other organization on or through which the option is traded or issued including, without limitation, those respecting position limits and exercise limits.”
- (b) Repealing sections 1900.3 and 1900.4
- (c) Repealing and replacing sections 1900.5 and 1900.6 with the following:

“1900.5. A Dealer Member that trades in options must file reports as required by the Corporation on the following matters:

- (a) All transactions together with a summary of open positions showing those that are covered and those that are uncovered; and
- (b) All holdings on the previous day in aggregate long or short positions of any single class of options of the minimum amount or over as specified by the rules, regulations or by-laws of the exchange or the clearing house on or through which the option is traded. For each class of option the report must include the number of options in each position and, in the case of short positions, whether they are covered.

1900.6. (a) The options trading agreement required in Rule 1900.2(b) must define the rights and obligations between the Dealer Member and the customer on the subjects that the Corporation may from time to time determine, including the following:

- (i) the rights of the Dealer Member to exercise discretion in accepting orders;
- (ii) the Dealer Member’s obligations with respect to errors and/or omissions and qualification of the time periods during which orders will be accepted for execution;
- (iii) the method of allocation of exercise assignment notices;
- (iv) the notice that maximum limits may be set on short positions and that during the last 10 days to expiry cash only terms may be applied and, in addition, that the Corporation may impose other rules affecting existing or subsequent transactions;
- (v) the customer's obligation to instruct the Dealer Member to close out contracts prior to expiry date;
- (vi) the customer's obligation to comply with applicable Rules and Rulings of the Corporation and any exchange, clearing corporation or other organization on or through which the option is traded or issued including, without

Appendix A

- limitation, those respecting position limits and exercise limits;
 - (vii) the acknowledgement by the customer that he or she has received the current disclosure statement referred to in Rule 1900.2(d);
 - (viii) a statement of the time limit set by the Dealer Member prior to which the client must submit an exercise notice; and
 - (ix) any other matter required by the exchange, clearing corporation or other organization on or through which an option is traded or issued.
- (b) Notwithstanding Rule 1900.6(a), if the client is an acceptable institution or acceptable counter-party the Dealer Member may, in lieu of maintaining an options trading agreement, accept a letter of undertaking from the acceptable institution or acceptable counter-party in which the institution or counter-party agrees to abide by the Rules, Rulings and requirements of the Corporation and of the exchange, clearing corporation or other organization on or through which an option is traded including those relating to exercise and position limits.”
- (d) Repealing section 1900.7.
13. Dealer Member Rule 2500 is repealed and replaced by:

“RULE 2500

MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION

Introduction

This Rule establishes minimum industry standards for Retail Customer account supervision.

These standards represent the minimum requirements necessary to ensure that a Dealer Member has in place procedures to properly supervise Retail Customer account activity. The Rule does not:

- (a) relieve Dealer Members from complying with specific SRO by-laws, rules, regulations and policies and securities legislation applicable to particular trades or accounts; or
- (b) preclude Dealer Members from establishing a higher standard of supervision and in certain situations a higher standard may be necessary to ensure proper supervision.

Many of the standards in this Rule are taken from existing Rules of the Corporation and of other self-regulatory organizations. Securities legislation was generally not canvassed. To ensure that a Dealer Member has met all applicable standards, Dealer Members are required to know and comply with Corporation and other self-regulatory organization by-laws, rules, regulations and policies and applicable securities legislation which may apply in any given circumstance.

Appendix A

The following principles have been used to develop these minimum standards:

- (a) The term "review" in this Rule has been used to mean a preliminary screening to detect items for further investigation or an examination of unusual trading activity or both. It does not mean that every trade meeting the selection process of this Rule must be investigated. The reviewer must use reasonable judgement in selecting the items for further investigation.
- (b) While Dealer Members must provide the necessary resources and qualified Supervisors to meet these standards, the standards do not specify what the resources must be. The Dealer Member must determine what resources and Supervisors are necessary based on the nature of the Dealer Member's business.
- (c) The compliance with the know-your-client rule and suitability of investment requirements is primarily the responsibility of the Registered Representative. The supervisory standards in this Rule relating to know-your-client and suitability are intended to provide Supervisors with guidelines on how to monitor the handling of these responsibilities by the Registered Representative.

I. Establishing and Maintaining Procedures, Delegation and Education

Introduction

Effective self-regulation begins with the Dealer Member establishing and maintaining a supervisory environment which fosters the business objectives of the Dealer Member and enables the Dealer Member to meet regulatory requirements and its obligations to its customers. To that end a Dealer Member must establish and maintain procedures which are supervised by qualified individuals. A major aspect of self-regulation is the ongoing education of staff in all areas of business conduct.

A. Establishing Procedures

- 1. A Dealer Member must:
 - (a) appoint Supervisors and supervisory personnel who have the necessary knowledge of industry regulations and Dealer Member policy to properly perform their duties;
 - (b) maintain written policies and procedures to document supervision requirements; and
 - (c) supply written instructions to all Supervisors and alternates to advise them on what is expected of them.
- 2. A Dealer Member must have a procedure establishing the approval process for new policies and procedures. Those having a significant impact on the Dealer Member's compliance system should be approved by senior management.

B. Maintaining Procedures

- 1. A Dealer Member must have a reasonable process to review the efficacy of its business conduct procedures and practices and rectify any deficiencies identified.

C. Risk-based procedures

1. A Dealer Member may select accounts for review on the basis of risk-based procedures, taking into account factors such as the size of account, nature of the trading, products traded, volume of activity, commissions generated or Approved Persons advising the customer.
2. A Dealer Member must document the basis used for selecting accounts for review in its policies and procedures.
3. The procedures for selecting accounts for review must be applied consistently across retail accounts.
4. At a minimum, a Dealer Member must conduct enhanced supervision of trading by Approved Persons who have had a history of questionable conduct. Evidence of such conduct can include trading activity that frequently raises questions in account reviews, frequent or serious client complaints, regulatory investigations, frequent account credit problems or failure to take appropriate remedial action on account problems identified.

D. Delegation

1. Supervisors may delegate tasks but not responsibility.
2. A Dealer Member must advise Supervisors of those specific functions that cannot be delegated.
3. The Supervisor delegating the task must ensure that these tasks are being performed adequately and that exceptions are brought to his or her attention.
4. Those to whom tasks are delegated must have the qualifications to perform them and should be advised in writing what is expected.

E. Education

1. A Dealer Member must provide all sales and supervisory personnel with the current sales practices and policies relevant to their functions. The provision can be done through access to electronic systems on which the policies and procedures are maintained, in which case personnel must be trained on use of the systems. A Dealer Member should obtain and record acknowledgements from all sales and supervisory personnel that they have read and understood the policies and procedures relevant to their responsibilities.
2. A Dealer Member must provide introductory and continuing education to all Approved Persons on the Dealer Member's policies and procedures and any relevant changes to them.
3. A Dealer Member must communicate information contained in compliance-related bulletins from the Corporation and other SROs and Regulatory Organizations to all sales and other Approved Persons to whom it is relevant. A Dealer Member must maintain procedures relating to the method and timing of distribution of compliance-related bulletins.

F. Records

Appendix A

1. A Dealer Member must maintain records of supervisory review for seven years.
2. A Dealer Member must maintain the records in a manner that permits them to be provided to the Corporation promptly for the first two years after its creation and within a reasonable time thereafter.
3. The evidence must record who conducted the review and when, inquiries made, replies received and actions taken.

II. Opening New Accounts

Introduction

To comply with the "Know-Your-Client" rule each Dealer Member must establish procedures to maintain accurate and complete information on each client. The first step towards compliance with this rule is completing proper documentation when opening new accounts. Accurate completion of the documentation when opening a new account allows both the Registered Representative and the supervisory staff to conduct the necessary review to ensure that recommendations made for any account are appropriate for the client and in keeping with his investment objectives. Maintaining accurate and current documentation will allow the Registered Representative and the supervisory staff to ensure that all recommendations made for any account are appropriate for the client and in keeping with the client's investment objectives.

"Know-Your-Client" procedures must also be directed at meeting a Dealer Member's gatekeeper obligations by identifying clients that present a high risk of conducting improper activities in the securities markets. For example, if a Dealer Member is concerned about a client's reputation, the Dealer Member must make all reasonable inquiries to resolve the concern. This includes making a reasonable effort to determine, for example, the nature of the client's business. Dealer Members should refuse to accept instructions from clients who, in the Dealer Member's judgment, are engaged in illegal, unfair or abusive trading activities. "Know-Your-Client" procedures must also meet the requirements of anti-money laundering and terrorist financial legislation and regulations.

A. Documentation

1. A Dealer Member must complete an account application for each new customer that conforms to the account information requirements of this Rule.
2. A Supervisor authorized in the Dealer Member's policies and procedures to do so must approve a fully completed new account application no later than the business day after the initial trade. 'Fully completed' means that all information necessary to assess suitability, creditworthiness and risk has been obtained but does not mean that the client must have signed the application if the Dealer Member requires that the client do so. Alternate procedures for securing interim approval are acceptable to prevent undue delays provided the Supervisor applies prompt final approval following the initial trade. If an account application received after the initial trade is not fully completed, a Dealer

Appendix A

Member must restrict the account to liquidating trades only until a fully completed application has been approved.

3. Where the customer is an employee or agent of another registered dealer, a Dealer Member must obtain written approval of the customer's employer or principal before opening the account. A Dealer Member must designate such accounts as non-client accounts.
4. A Dealer Member must maintain a complete set of documentation regarding each account. The Registered Representative(s) handling an account must maintain a copy of the account application. A Dealer Member can meet this requirement by maintaining the information on the application in an electronic application accessible to the Registered Representative.
5. The Registered Representative must update the information on the application where there is a material change in client information. The update must be approved in the manner provided in subsection A.2. A Dealer Member must restrict the access of Registered Representatives and other persons to its electronic systems for maintaining know-your-client information so that material information cannot be changed without the required approval. A Dealer Member must have procedures independent of the Registered Representative for verifying material changes to customer information, such as changes of address, financial situation, investment objectives or risk tolerance.
6. When there is a change of Registered Representative, the new Registered Representative must verify the account information to ensure it is current. A Dealer Member must have a procedure for recording that the new Registered Representative has reviewed the customer information and that the appropriate Supervisor is satisfied that it has been reviewed and has approved any material changes. It is acceptable for the Registered Representative to record and initial any changes on a photocopy of the existing application provided that it was previously approved within two years of the review.
7. A Dealer Member must not assign an account number for a new customer unless it has the proper name and address of the customer.

B. Pending Documents

1. A Dealer Member must have procedures in place to ensure supporting documents are received within a reasonable period of time of opening the account.
2. A Dealer Member must have systems or procedures to prevent:
 - Trading on margin until the customer has entered into a margin agreement as described in Rule 200.1(i)(2)
 - Trading in futures contracts or futures contract options until the customer has entered into a futures contracts or futures contract options trading agreement as described in Rule 1800.2(b)
 - Trading in options until the customer has entered into an options trading agreement as described in Rule 1900.2(b)

Appendix A

3. A Dealer Member must have a system for recording pending account documentation and following up where it is not received in a reasonable time.
4. A Dealer Member must take positive action specified in its policies and procedures to obtain required documentation not obtained within 25 business days of the opening of the account.

C. Other Requirements

1. All hold mail must be authorized by the client in writing and be controlled, reviewed on a regular basis and maintained by the responsible Supervisor.
2. Returned mail must be properly investigated and controlled by a person who is independent of the sales function but may be located within a Business Location.
3. For supervisory purposes, "non-client" accounts, RRSP accounts, managed accounts, discretionary accounts and restricted accounts must be readily identifiable.

III. Account Supervision Generally

Introduction

Rule 38.1 requires a Dealer Member to implement systems of supervision and control to ensure that is reasonably designed to achieve compliance with the Rules and Rulings of the Corporation and all other laws, regulations and policies applicable to the Dealer Member's securities and commodity futures business. This section provides guidance on the means used by Dealer Members to meet that requirement with respect to retail customer accounts.

A. Supervisory Structure

1. In maintaining a supervisory structure and appointing Supervisors, a Dealer Member must take into consideration all factors necessary to ensure the adequacy of the supervision, including the products traded, type of trading, location of business and other functions of Supervisors.
2. Where the Dealer Member conducts retail business in business locations outside its Head Office, it should consider the following:
 - A resident Supervisor is in the best position to know the Registered Representatives 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. However, a Dealer Member may determine to what extent a resident Supervisor is necessary, considering factors such as:
 - The number of Registered Representatives in the location
 - The experience of Registered Representatives in the location
 - The nature of the business conducting in the location
 - The availability of a Supervisor or Supervisors in nearby locations

Appendix A

- Other systems and controls mitigating the risk of remote supervision
 - Where a business location does not have a Supervisor working in the office, it must have an outside Supervisor assigned to it. A Dealer Member's policies and procedures and the instructions to the outside Supervisor must include provision for periodic visits to the location by the Supervisor as necessary to ensure that business is being conducted properly at the location.
3. While it is not always possible in a very small firm, a Dealer Member should ensure independent supervision of all retail accounts. A Supervisor's advice and trades for his or her own clients should be supervised by another Supervisor.
 4. A Dealer Member must ensure that a Supervisor who advises and trades for his or her own clients devotes sufficient time and attention to his or her supervisory role.
 5. A Dealer Member must ensure that Supervisors are qualified to supervise trading activity in all products traded by those under his or her supervision and any other services that they provide to Retail Customers. Where the Supervisor is not so qualified, the Dealer Member may divide the supervision between two or more Supervisors, but must ensure that there are appropriate mechanisms for them to communicate with one another, that the system ensures that the Dealer Member maintains an overall view of the client's situation and activity and that the assignment of responsibilities is clear and complete. One acceptable mechanism for doing so is the appointment of a primary Supervisor to whom the other Supervisor(s) provide advice with regard to the activity in the products or services the primary Supervisor is not qualified to supervise.
 6. A Dealer Member's supervisory system must provide Supervisors with the information necessary to properly conduct their supervision. For account reviews this includes readily accessible client information and full information about account activity including relevant non-trade activity such as receipts, deliveries, deposits, withdrawals and journal entries.
 7. A Dealer Member's supervisory system must provide for back-up during the absence of responsible Supervisors. For any prolonged absence of a Supervisor, the back-up Supervisor should be advised as necessary of any ongoing issues or concerns as necessary to provide proper supervision.
 8. A Dealer Member must have systems of supervision and review to ensure that Supervisors are properly fulfilling their supervisory functions. This requirement can be met by a two-tiered system of first and second level reviews as described in this policy.
 9. A Supervisor must have sufficient authority to take effective and timely remedial action where account activity or any other matter under his or her supervision falls or appears to fall outside the bounds of proper conduct, just and equitable principles of trade or good business practice. Escalation for a decision by a more senior Supervisor or Executive will be considered an acceptable form of action.

B. Supervision of Account Activity

A Dealer Member must have systems and procedures to supervise trading activity in retail accounts. The supervision must provide reasonable assurance that the Dealer Member is meeting its regulatory obligations, including those to clients such as suitability and gatekeeper obligations such as preventing market abuses. The following principles should be taken into consideration:

1. Reviews may be conducted on a pre-trade or post-trade basis. A properly crafted pre-trade review process may obviate or lessen the need for post-trade reviews.
2. Review procedures must cover all accounts. Where a Dealer Member offers both commission and fee-based accounts, it cannot select accounts for review solely on the basis of commission levels; it must also have a procedure for selecting fee-based accounts for review.
3. Reviews procedures must be able to identify patterns of activity that are not apparent by reviewing trades singly. For example, a review of trading over a longer period may raise questions about the overall level of activity even though each trade, looked at singly, appears to be suitable for the client.
4. Reviews must encompass non-trade issues such as late payment, margin problems, trade cancellations or transfers and flows of funds or securities that might be suspicious of money laundering.
5. The selection of activity for post-trade review may be done using a risk-based approach reasonably designed to detect improper activity. A risk-based approach can be used to determine the period of activity to be reviewed. For example, in some cases it may be appropriate to conduct longer-term reviews of monthly activity; in others they may consider shorter or longer periods.
6. Reviews must take into consideration, and reviewers must have access to, information about customers that may reasonably be assessed as presenting a higher risk of improper market activity such as those known by the Dealer Member to have access to material non-public information about issuers, holders of control blocks of public issuers and market professionals.
7. All account activity of employees and agents should be subject to review.
8. Reviews must be done on a timely basis, as established in the Dealer Member's policies and procedures. The timing should be reasonably designed to identify as early as possible matters requiring supervisory attention.
9. It is acceptable to use computer analysis to assist in selecting activity to be reviewed.

IV. Two-Tier Reviews

In a Dealer Member with multiple business locations conducting Retail Customer account activity, a two-tier system of post-trade activity reviews as described in this section is an acceptable structure.

Appendix A

The first level review will normally be conducted by a Supervisor at each business location having a resident Supervisor. Such reviews may also be carried out on a regional basis or at a Dealer Member's head office provided that the systems and resources to conduct the review are available at the regional or head office and that the Dealer Member has adequate systems and procedures for dealing with any issues identified.

The second-tier review will normally be conducted at the Dealer Member's Head Office, but may also be done regionally. The second level of supervision is generally not at the same depth as first level supervision. It should and be reasonably designed to identify serious account problems, including all those listed regarding first level reviews, that may have been missed by the first level supervision and ensure that first level supervision is being adequately conducted.

Where second level reviews are conducted by personnel or a department responsible only for monitoring activity, the Dealer Member should have procedures for referring issues that cannot be resolved with first level Supervisors to a higher level Supervisor who has the authority to resolve them.

A. First-Tier Daily Reviews

A first-tier review examines the previous day's trading using means described in the Dealer Member's procedures to attempt to detect the following:

- unsuitable trading;
- undue concentration of securities in a single account or across accounts;
- excessive trade activity;
- trading in restricted securities;
- conflict of interest between Registered Representative and client trading activity;
- excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading;
- inappropriate / high risk trading strategies;
- quality downgrading of client holdings;
- excessive / improper crosses of securities between clients;
- improper employee trading;
- front running;
- account number changes;
- late payment;
- outstanding margin calls;
- violation of any internal trading restrictions ;
- undisclosed short sales;
- manipulative or deceptive trading;
- insider trading.

B. First-Tier Monthly Reviews

1. A first-tier monthly review should encompass the areas of concern as described in subsection IV.A for daily activity reviews.
2. It may not be possible to review each statement produced. A first-tier monthly review starts with the selection, on a basis reasonably designed to detect improper account activity, of Retail Customer accounts to be reviewed. A Dealer Member can meet this obligation by reviewing the activity of all customers charged gross commissions of \$1,500 or more for the month.
3. A first-tier monthly review should include all non-client accounts showing any activity other than receipt of dividends or interest or payment of interest.
4. This review should be completed within 21 days of the period covered unless precluded by unusual circumstances.

C. Second-Tier Daily Reviews

1. Daily reviews should cover the following:
 - trades meeting criteria established in the Dealer Member's policies and procedures. For this purpose, the following meet the requirement:
 - stock trades with a value over \$5,000 and a price under \$5.00 per share;
 - stock trades with value over \$20,000 and a price at or over \$5.00 per share;
 - bond trades over \$100,000 value per trade;
 - non-client trading;
 - client accounts of producing Supervisor;
 - all client accounts not reviewed by a Supervisor;
 - trade cancellations;
 - trading in restricted accounts;
 - trading in suspense accounts;
 - account number changes;
 - late payment;
 - outstanding margin calls.
2. Daily reviews should be completed no later than the business day following the activity unless precluded by unusual circumstances.

D. Second-Tier Monthly Reviews

1. A Dealer Member must select accounts for second-tier review based on criteria established in its policies and procedures. This requirement can be met using the following criteria:

Appendix A

- accounts of customers charged more than \$3,000 in commission during the month;
 - accounts of, all customers and non-clients charged more than \$1,500 in commission during the month that were not subject to a first level review by the normal first level Supervisor, including the customer accounts of producing first-tier Supervisors.
2. Monthly reviews should be completed within 21 business days of the period covered unless precluded by unusual circumstances.

E. Other Activity

In addition to transactional activity, a Dealer Member must have systems and procedures designed to identify, deal with and keep first level Supervisors informed about other client related matters such as:

- client complaints;
- cash account violations;
- transfers of funds and securities between unrelated accounts or between non-client and client accounts or deposits from non-client to client accounts;
- trading while under margined.

V. Option Account Supervision

Introduction

A Dealer Member dealing in options or Exchange traded commodity or index warrants must appoint a Supervisor (the “Designated Options Supervisor”) qualified to supervise options trading to have overall responsibility for the opening of new option accounts and the supervision of account activity. The Designated Options Supervisor must ensure that the Dealer Member implements policies and procedures reasonably designed to ensure that all recommendations made for any account are and continue to be appropriate for the customer and in keeping with his or her investment objectives. In addition, a Dealer Member should, where the level of options trading activity warrants it, have a qualified Supervisor to assist in supervisory activities and to carry out the functions of the Designated Options Supervisor in his or her absence. All supervisory procedures regarding options must be conducted by options qualified Supervisors.

A. Account Opening and Approval

1. The option trading agreement and option account application must be completed and the client’s agreement recorded before the first trade. This applies to new accounts or existing accounts approved for other products.
2. The option trading agreement contents must meet or exceed Corporation requirements.
3. The Designated Options Supervisor or another options qualified Supervisor must approve all accounts to trade in options and their approval and the date of approval must be recorded.

Appendix A

4. The approving Supervisor must determine whether the risk characteristics of the strategies the customer intends to use are appropriate for the customer and in keeping with his or her investment objectives and risk tolerance. If they are not, the approving Supervisor should restrict the account from using inappropriate strategies and note with the option account approval any trading restrictions imposed. The Supervisor must ensure that the Registered Representative handling the account is aware of any restrictions.

B. Activity Reviews

1. A Dealer Member's supervisory procedures must include reviews of option trading activity for suitability, exceeding position or exercise limits, concentration, commission activity, and exposure of uncovered positions.
2. A two-tier post-trade review system using the following criteria is not mandatory but will be deemed to meet the review requirement:
 - Daily first-tier review of all option trading activity;
 - Daily second-tier review of opening option trading activity in excess of ten contracts in any one account.

C. Monthly Reviews

Accounts must be selected for monthly first- and second-tier reviews of account using criteria reasonably designed to detect improper activity. For accounts that trade in equities and fixed income products as well as options, it may be appropriate to use the criteria described in Section IV.D. For accounts in which the trading is more concentrated in options, the criteria should take into account the risks related to the type of strategies being used.

D. Other Options Policies and Procedures

A Dealer Member's policies and procedures must include, where applicable:

1. The Designated Options Supervisor's involvement in the approval and daily and monthly reviews of any discretionary managed accounts trading in options. The Designated Options Supervisor need not conduct such reviews but should be aware of the use of options in discretionary or managed accounts and exercise heightened care to ensure that it is conducted and supervised properly.
2. Procedures to ensure clients are notified of impending expiry dates.
3. Procedures to ensure the dissemination of information on new developments in the trading and regulation of options in a prudent and appropriate manner; and the dissemination to all clients of any changes in a firm's business policy.
4. Procedures for notifying clients of significant changes in options contracts in which they have open positions resulting from changes to the underlying security.
5. Procedures to ensure that only qualified Registered Representatives or Investment Representatives engage in trading in or advising on options

Appendix A

and that they do so only after the Corporation has been notified as required in Rule 18.

6. Procedures to review and approve advertising and sales literature relating to options. The Designated Options Supervisor need not conduct such reviews but should be aware of the use of advertising or sales literature and exercise heightened care to ensure that it is prepared and supervised properly.
7. Procedures requiring the review and approval of the use of and solicitation of clients to use option programmes.

VI. Future and Futures Options Account Supervision

Introduction

A Dealer Member dealing in futures contracts and futures contract options must designate a Supervisor qualified to supervise futures contract and futures contract options trading (the “Designated Futures Supervisor”) to have overall responsibility for the opening of new futures and futures options accounts and the supervision of account activity. The Designated Futures Supervisor must ensure that the Dealer Member implements policies and procedures reasonably designed to ensure that all recommendations made for any account are and continue to be appropriate for the client and in keeping with his or her investment objectives. In addition, a Dealer Member should, where the level of futures and futures options trading activity warrants it, have a qualified Supervisor to assist in supervisory activities and to carry out the functions of the Designated Futures Supervisor in his or her absence. All supervisory procedures regarding futures and futures options must be conducted by futures and futures options qualified Supervisors.

A. Account Opening and Approval

1. The futures trading agreement or letter of undertaking under Rule 1800.2(b) and futures account application must be completed, and the client’s agreement recorded, before the first trade. This applies to new accounts or existing accounts approved for other products.
2. The Designated Futures Supervisor or another futures qualified Supervisor must approve all accounts and their approval and the date of approval must be recorded before any trading.
3. The Supervisor approving the opening of a hedging account must ensure that the Dealer Member has reliable evidence establishing acceptability of a client as a hedger. Such evidence can take the form of a hedge letter or statement supported by verification procedures.
4. The approving Supervisor must determine whether the risk characteristics of the futures contracts or futures contract options and strategies the customer intends to use are appropriate for the customer and in keeping with his or her investment objectives and risk tolerance. If they are not, the approving Supervisor should restrict the account from using inappropriate contracts or strategies and record with the futures account approval any trading restrictions imposed. The approving Supervisor must ensure that the Registered Representative handling the account is aware of any restrictions.

Appendix A

5. A Dealer Member's futures account application or futures account agreement must include, other than for a hedging account, a risk limit for futures trading indicating the maximum amount of cumulative loss the client can afford to sustain. The maximum loss can be stated on a lifetime basis or on an annual basis. If the loss limit is stated on an annual basis, the Dealer Member must have a procedure to update it annually and the Designated Futures Supervisor or a Supervisor qualified to supervise futures must review and approve the updated loss limit and ensure that it takes into account any previously accumulated losses.

B. Supervision

A Dealer Member's supervisory procedures must be reasonably designed to detect improper activity such as the following:

- excessive day trading resulting in trading large numbers of contracts;
- trading while under margin;
- trading without approval of the account;
- trading beyond margin or credit limits;
- cumulative losses exceeding risk limits;
- unsuitable trading;
- inappropriate trading strategies;
- position and exercise limits;
- front running;
- conflicts of interest;
- excessive commission activity;
- speculative trading in hedge accounts;
- exposure to delivery through holding contracts into delivery month;
- excessive risk or loss to account guarantors.

C. Other Futures Policies and Procedures

A Dealer Member's policies and procedures must include where applicable:

1. The Designated Futures Supervisor's involvement in the approval and daily and monthly reviews of discretionary or managed futures or futures options accounts. The Designated Futures Supervisor should approve any use of discretionary authority in a futures account.
2. A monthly review of the financial performance of each discretionary account by the Designated Futures Supervisor or a Supervisor qualified in futures contracts acting under the Designated Futures Supervisor's supervision.
3. Procedures to ensure that positions with pending delivery months are handled properly.

Appendix A

4. Procedures to ensure the dissemination of information on new developments in the trading and regulation of futures contracts, such as changes in minimum margin requirements, in a prudent and appropriate manner; and the dissemination to all clients of any changes in a firm's business policy.
5. Procedures to ensure that only qualified Registered Representatives engage in trading in or advising on futures contracts or futures contracts options and that they do so only after the Corporation has been notified as required in Rule 18.
6. Procedures to review and approve sales literature or advertising relating to futures. The Designated Futures Supervisor need not conduct such reviews but should be aware of the use of futures advertising or sales literature and exercise heightened care to ensure that it is prepared and supervised properly.
7. Procedures requiring the review and approval of the use and solicitation of clients to use futures programmes.

VII. Discretionary Account Supervision

Introduction

Simple discretionary accounts are accounts where the discretionary authority has not been solicited and which are designed to accommodate customers who are frequently or temporarily unavailable to authorize trades.

A Dealer Member must consent to accepting discretionary accounts and have the proper documentation and supervisory procedures in place to handle such accounts.

A. Account Approval

1. The Designated Supervisor under Rule 1300.4(a) must approve any request for discretion.
2. The Dealer Member and customer must enter into a discretionary account agreement that includes any restrictions to the trading authorization. The Supervisor designated under Rule 1300.4(a) must approve the agreement.
3. The Dealer Member must identify discretionary accounts in its books and records in a manner that ensures that the Dealer Member can properly supervise them.

B. Entry of Orders

1. A Supervisor must approve any discretionary order for a discretionary account handled by a Registered Representative prior to the order being entered unless:
 - the Registered Representative is qualified to provide discretionary management services and the Dealer Member has notified the Corporation that he or she provides those services, or
 - the Registered Representative is also an approved Executive.
2. A discretionary account may not hold any publicly traded securities of the Dealer Member or its affiliates.

C. Account Supervision

1. The Supervisor designated under Rule 1300.4(a) must review discretionary orders entered by an Executive no later than next day unless the Executive is also a Registered Representative qualified to provide discretionary management services and the Dealer Member has notified the Corporation that he or she provides those services.

VIII. Client Complaints

1. Each Dealer Member must establish procedures to deal effectively with client complaints.
 - (a) The Dealer Member must acknowledge all written client complaints.
 - (b) The Dealer Member must convey the results of its investigation of a client complaint to the client in due course.
 - (c) Client complaints involving the sales practices of a Dealer Member, its partners, Directors, Officers or employees must be in writing and signed by the client and then handled by sales supervisors or compliance staff. Copies of all such written submissions must be filed with the compliance department of the Dealer Member.
 - (d) Each Dealer Member must ensure that Registered Representatives and their supervisors are made aware of all complaints filed by their clients.
 2. All pending legal actions must be made known to head office.
 3. Each Dealer Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.
 4. Each Dealer Member must maintain an orderly record of complaints together with follow-up documentation for regular internal/external compliance reviews. This record must cover the past two years at least.
 5. Each Dealer Member must establish procedures to ensure that breaches of the by-laws, regulations, rules and policies of the SROs as well as applicable securities legislation are subjected to appropriate internal disciplinary procedures.
 6. When a Dealer Member finds complaints to be a significant factor, internal procedures and practices should be reviewed, with recommendations for changes to be submitted to the appropriate management level.”
14. Dealer Member Rule 2700 is repealed and replaced by:

“RULE 2700

**MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT
OPENING, OPERATION AND SUPERVISION**

Introduction

Appendix A

This Rule covers the opening, operation and supervision of Institutional Customer accounts, which are accounts for investors that are not individuals who meet the requirements of the definition herein.

This document sets out minimum standards governing the opening, operation and supervision of Institutional Customer accounts.

Pursuant to Rule 38, the Dealer Member must provide adequate resources and qualified Supervisors to achieve compliance with these standards.

Adherence to the minimum standards requires that a Dealer Member have in place procedures to properly open and operate Institutional Customer accounts and monitor their activity. Following these minimum standards, however, does not:

- (a) relieve a Dealer Member from complying with specific SRO by-laws, rules, regulations and policies and securities or other legislation applicable to particular trades or accounts; (e.g. best execution obligation, restrictions on short selling, order designations and identifiers, exposure of customer orders, trade disclosures);
- (b) relieve a Dealer Member from the obligation to impose higher standards where circumstances clearly dictate the necessity to do so to ensure proper supervision; or
- (c) preclude a Dealer Member from establishing higher standards.

Any account other than an Institutional Customer account governed by these standards will be governed by the Minimum Standards for Retail Customer Account Supervision (Rule 2500).

A Dealer Member may, with the written approval of the Corporation, establish policies and procedures that differ from this Rule, provided that, in the opinion of the Corporation, the Dealer Member's policies and procedures are appropriate to supervise trading of its Institutional Customers.

I. Customer Suitability

1. When dealing with an Institutional Customer, a Dealer Member must make a determination whether the customer is sufficiently sophisticated and capable of making its own investment decisions in order to determine the level of suitability owed to that Institutional Customer. Where a Dealer Member has reasonable grounds for concluding that the Institutional Customer is capable of making an independent investment decision and independently evaluating the investment risk, then a Dealer Member's suitability obligation is fulfilled for that transaction. If no such reasonable grounds exist, then the Dealer Member must take steps to ensure that the Institutional Customer fully understands the investment product, including the potential risks.
2. In making a determination whether a customer is capable of independently evaluating investment risk and is exercising independent judgment, relevant considerations could include:
 - (a) any written or oral understanding that exists between a Dealer Member and its customer regarding the customer's reliance on the Dealer Member;
 - (b) the presence or absence of a pattern of acceptance of the Dealer Member's recommendations;

Appendix A

- (c) the use by a customer of ideas, suggestions, market views and information obtained from other Dealer Members, market professionals or issuers particularly those relating to the same type of securities;
 - (d) the use of one or more investment dealers, portfolio managers, investment counsel or other third party advisors;
 - (e) the general level of experience of the customer in financial markets;
 - (f) the specific experience of the customer with the type of instrument(s) under consideration, including the customer's ability to independently evaluate how market developments would affect the security and ancillary risks such as currency rate risk; and
 - (g) the complexity of the securities involved.
3. A Dealer Member has no suitability obligation under Section I.1 and is not required to make a determination required under Section I.2 when the Dealer Member executes a trade on the instructions of another Dealer Member, a portfolio manager, investment counsel, exempt market dealer, bank, trust company or insurer.
 4. A Dealer Member has no suitability obligation under Section I.1 and is not required to make a determination required under Section I.2 when the Dealer Member executes a trade on the instructions of an Institutional Customer that:
 - (a) is also a "permitted client", as defined in National Instrument 31-103;
 - (b) is not a customer described in Section I.3; and
 - (c) has waived, in writing, the protections offered to them under Sections I.1 and I.2.

II. New Account Documentation and Approval

1. A Dealer Member must complete a new customer account form for each Institutional Customer;
2. A Dealer Member may establish a 'master' new account documentation file, containing full documentation and, when opening sub-accounts, it should refer to the principal or 'master' account with which it is associated.
3. Each new account must be approved by a Supervisor who is Department Head or his or her designate prior to the initial trade or promptly thereafter. Such approval must be recorded in writing or auditable electronic form.
4. The Dealer Member must exercise due diligence to ensure that the new customer account form is updated whenever the Dealer Member becomes aware that there is a material change in customer information.

III. Establishing and Maintaining Procedures, Delegation and Education

Introduction

Effective self-regulation begins with the Dealer Member establishing and maintaining a supervisory environment which fosters both the business objectives of the Dealer Member and maintains the self-regulatory process. To that end, a Dealer Member must establish and maintain procedures which are supervised by qualified individuals.

A. Establishing Procedures

1. A Dealer Member must appoint a Designated Supervisor, who has the necessary knowledge of industry regulations and Dealer Member policy to properly establish procedures reasonably designed to ensure adherence to regulatory requirements and to supervise Institutional Customer Accounts.
2. Written policies must be established to document and communicate supervisory requirements.
3. All alternate Supervisors must be advised of and adequately trained for their supervisory roles.
4. All policies established or amended should have senior management approval.

B. Maintaining Procedures

1. Evidence of supervisory reviews must be maintained for seven years and on-site for one year.
2. A periodic review of supervisory policies and procedures should be carried out by the Dealer Member to ensure they continue to be effective and reflect any material changes to the businesses involved.

C. Delegation of Procedures

1. Tasks and procedures may be delegated but not responsibility.
2. The Supervisor delegating the task must take steps designed to ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.
3. Those to whom tasks are delegated must have the qualifications to perform them and should be advised in writing what is expected.

D. Education

1. The Dealer Member's current sales practices and policies must be made available to all sales and supervisory personnel. Dealer Members should obtain and record acknowledgements from all sales and supervisory personnel that they have received, read and understood the policies and procedures relevant to their responsibilities.
2. A major aspect of self-regulation is the ongoing education of staff. The Dealer Member is responsible for appropriate training of institutional sales and trading staff, as well as ensuring that Continuing Education requirements are being met.

E. Compliance Monitoring Procedures

Appendix A

Dealer Members must establish compliance procedures for monitoring and reporting adherence to rules, regulations, requirements, policies and procedures. A compliance monitoring system should be reasonably designed to prevent and detect violations. The compliance monitoring system will ordinarily include a procedure for reporting results of its monitoring efforts to management and, where appropriate, the board of directors or its equivalent.

IV. Supervision of Accounts

A. Policies and Procedures

1. Dealer Members must implement policies and procedures for the supervision and review of activity in the accounts of Institutional Customers. Such procedures may include periodic reviews of account activity, exception reports or other means of analysis.
2. The policies and procedures may vary depending on factors including, but not limited to, the type of product, type of customer, type of activity or level of activity.
3. The policies and procedures should outline the action to be taken to deal with problems or issues identified from supervisory reviews.

B. Account Activity Detection

The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements of any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following:

1. Manipulative or deceptive methods of trading;
2. Trading in restricted list securities;
3. Employee or proprietary account front running;
4. Exceeding position or exercise limits on derivative products; and
5. Transactions raising a suspicion of money laundering or terrorist financing activity.

V. Client Complaints

1. Each Dealer Member must establish procedures to deal effectively with client complaints.
 - (a) The Dealer Member must acknowledge all written client complaints.
 - (b) The Dealer Member must convey the results of its investigation of a client complaint to the client in due course.
 - (c) Client complaints involving the sales practices of a Dealer Member, its partners, Directors, Officers or employees must be in writing and signed by the client and then handled by sales supervisors or compliance staff. Copies of all such written submissions must be filed with the compliance department of the Dealer Member.

Appendix A

- (d) Each Dealer Member must ensure that Registered Representatives and their Supervisors are made aware of all complaints filed by their clients.
 2. All pending legal actions must be made known to head office.
 3. Each Dealer Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.
 4. Each Dealer Member must maintain an orderly record of complaints together with follow-up documentation for regular internal/external compliance reviews. This record must cover the past two years at least.
 5. Each Dealer Member must establish procedures to ensure that breaches of the by-laws, regulations, rules and policies of the SROs as well as applicable securities legislation are subjected to appropriate internal disciplinary procedures.
 6. When a Dealer Member finds complaints to be a significant factor, internal procedures and practices should be reviewed, with recommendations for changes to be submitted to the appropriate management level.”
15. Dealer Member Rule 2900, Part I is repealed and replaced by:

“RULE 2900

PROFICIENCY AND EDUCATION:

PART I – PROFICIENCY REQUIREMENTS

INTRODUCTION

This Part I outlines the proficiency requirements for Approved Persons. These proficiency requirements consist of both entrance thresholds and on-going requirements.

DEFINITIONS

For the purpose of this Part I:

“Recognized Foreign Self-regulatory Organization” means a foreign self-regulatory organization which offers a reciprocal treatment to Canadian applicants and which has been approved as such by Corporation.

All courses and examinations, unless otherwise specified, are administered by CSI Global Education Inc.

A. Proficiency Requirements for Approved Persons

1. Supervisors

- (a) The proficiency requirements for Supervisors of Approved Persons dealing with retail customers are:
 - (i) Two years of relevant experience working for a Dealer Member or such equivalent experience as may be acceptable to the applicable District Council;

Appendix A

- (ii) If supervising Registered Representatives dealing with retail customers, successful completion of
 - A. The Canadian Securities Course,
 - B. The Conduct and Practices Handbook Course
 - C. The Branch Managers Course, and
 - D. The Effective Management Seminar within 18 months after beginning to supervise Registered Representatives dealing with retail customers.
- (iii) If supervising Investment Representatives only, successful completion of The Canadian Securities Course, The Conduct and Practices Handbook Course, and the Branch Managers Course
- (iv) If supervising options trading, successful completion of The Derivatives Fundamentals Course, The Options Licensing Course and The Options Supervisor Course.
- (v) If supervising futures contract and futures contract options, successful completion of:
 - A.
 - 1. The Derivatives Fundamentals Course and the Futures Licensing Course (“FLC”), or
 - 2. The FLC and the National Commodity Futures Examination administered by the National Association of Securities Dealers;
 - and
 - B. the Canadian Commodity Supervisors Examination.
- (b) The proficiency requirements for Supervisors of Approved Persons dealing with Institutional Customer accounts only are:
 - (i) Successful completion of:
 - A. The Branch Managers Course, or
 - B. the Partners, Directors and Senior Officers Course, and
 - (ii) The proficiency requirements necessary to conduct or supervise any trading activity carried on by Approved Persons he or she supervises.
- (c) A Chief Compliance Officer who is also a Supervisor of a producing Supervisor is exempt from the proficiency requirements in 1(a)(ii) provided he/she complies with the proficiency requirements of Dealer Member Rule 2900 Part I A.2B.
- (d) If an individual is approved as a Supervisor as of September 28, 2009, the requirement to complete The Derivatives Fundamentals Course and The Options Licensing Course in subsection 1(a)(iv) does not apply to the individual so long as the individual remains approved in the Supervisor category.
- (e) An individual who supervises a Registered Representative under Rule 1300.15(c) must satisfy the applicable proficiency requirements of Rule 2900 Part 1 A.6 or section 3.11 (Portfolio manager – advising representative) of National Instrument 31-103

Appendix A

Registration Requirements and Exemptions and is, for greater certainty, exempt from the requirements in Rule 2900 Part 1 A.1 (a)(i), (ii) and (v).

- (f) A partner, director, or officer who is a designated supervisor under Rule 1300.2 or 1300.4 and who undertook such a supervisory role immediately prior to September 28, 2009 is exempt from the applicable requirements in subsection 1(a)(ii) and (iii) provided:
 - (i) the individual successfully completed the Partners, Directors and Senior Officers Course;
 - (ii) the individual seeks approval as a Supervisor within 6 months of September 28, 2009; and
 - (iii) the individual remains approved in the Supervisor category.

2. Directors and Executives

The proficiency requirements for a Director or Executive of a Dealer Member under Rule 7.3 or 7.4 are:

- (a) Successful completion of the Partners, Directors and Senior Officers Course;
- (b) If also approved in a trading category, successful completion of the applicable proficiency requirements; and
- (c) If supervising the handling of customer accounts, successful completion of the applicable proficiency requirements for a Supervisor.

2A. Chief Financial Officers

- 1. The proficiency requirements for a chief financial officer pursuant to Rule 38.6 are:
 - (a) A financial accounting designation, university degree or diploma, or equivalent work experience; and
 - (b) Successful completion of the Partners, Directors and Senior Officers Course, and
 - (c) Successful completion of the Chief Financial Officers Qualifying Examination.
- 2. A person approved as Acting Chief Financial Officer pursuant to Rule 7.5(b) shall have 90 days from the date of termination of the Chief Financial Officer to successfully complete of the Chief Financial Officers Qualifying Examination.
- 3. Any Dealer Member that fails to provide to the Corporation proof of successful completion of the Chief Financial Officers Qualifying Examination within 10 days of the dates specified for successful completion in section 2 above, or such other dates as the Corporation may specify, shall be liable for and pay to the Corporation such fees as the Board may from time to time prescribe.

2B. Chief Compliance Officers

1. The proficiency requirements for a chief compliance officer pursuant to Rule 38.7 are:
 - (a) Successful completion of the Partners, Directors and Senior Officers Qualifying Examination; and
 - (b) Successful completion of the Chief Compliance Officers Qualifying Examination.
2. A person approved as acting Chief Compliance Officer pursuant to Rule 38.7 shall have 90 days from the date of termination of the Chief Compliance Officer to successfully complete of the Chief Compliance Officers Qualifying Examination.
3. Any Dealer Member that fails to provide to the Corporation proof of successful completion of the Chief Compliance Officers Qualifying Examination within 10 days of the dates specified for successful completion in section 2 above, or such other dates as the Corporation may specify, shall be liable for and pay to the Corporation such fees as the Board may from time to time prescribe.

3. Registered Representatives and Investment Representatives

The proficiency requirements for a Registered Representative or Investment Representative under Rule 18.3 are:

- (a) (i) Successful completion of
 - (A) The Canadian Securities Course prior to commencing the training programme described in subsection (C),
 - (B) The Conduct and Practices Handbook Course, and
 - (C) Either
 1. For a Registered Representative dealing with retail customers a 90-day training programme during which time he or she has been employed with a Dealer Member firm on a full-time basis, or
 2. For an Investment Representative, a 30-day training programme during which time he or she has been employed with a Dealer Member firm on a full-time basis;
- or
- (ii) Successful completion of the New Entrants Course, where the person was registered or licensed with a recognized foreign self-regulatory organization within three years prior to application with the Corporation;

and

- (b) For a Registered Representative dealing with retail customers other than a Registered Representative dealing in mutual funds only, successful completion of the Wealth Management Essentials

Appendix A

course within 30 months after his or her approval as a Registered Representative.

4. **Registered Representatives and Investment Representatives Dealing only in Mutual Funds**

The proficiency requirement for a Registered Representative or Investment Representative dealing only in mutual funds under Rule 18.7 is successful completion of:

- (a) The Canadian Securities Course;
- (b) The Canadian Investment Funds Course administered by IFIC,
- (c) The Investment Funds in Canada Course administered by CSI Global Education Inc. and previously The Institute of Canadian Bankers, or
- (d) The Principles of Mutual Funds Investment Course administered by CSI Global Education Inc. and previously The Institute of Canadian Bankers.

5. **Traders**

The proficiency requirement for a Trader under Rule 500.2 is:

- (a) for a Trader on the Toronto Stock Exchange or TSX Venture Exchange, the Trader Training Course, unless an exemption is granted by either exchange or its market regulation services provider.
- (b) for a Trader on the Bourse de Montreal, the proficiency requirements determined to be acceptable by Bourse de Montreal.

6. **Portfolio Management**

6.1 The proficiency requirements for a Registered Representative providing discretionary portfolio management for managed accounts that do not trade in futures contracts are:

- (a) Successful completion of
 - (i) The Conduct and Practices Handbook Course, and
 - (ii) either
 - A. The courses necessary to attain the Canadian Investment Manager Designation, or
 - B. The three levels of the Chartered Financial Analyst programme administered by the CFA Institute;

and

- (b) Experience
 - (i) Of at least three years as a Registered Representative or a research analyst for a Dealer Member,
 - (ii) Of at least two years ending not more than three years prior to the date of application as a registered advisor under Canadian securities legislation managing on a

Appendix A

discretionary basis at least \$5,000,000 in aggregate assets; or

- (iii) Of at least five years ending not more than three years prior to the date of application, managing a portfolio of \$5,000,000 or more, on a discretionary basis, while employed by a government-regulated institution.

6.2 The proficiency requirements for Registered Representative exercising discretionary authority over managed accounts trading in futures contracts or futures contracts options are:

- (a) Successful completion of
 - (i) The Canadian Commodity Supervisors Exam, the Futures Licensing Course and the courses necessary to attain the Derivatives Market Specialist Designation; or
 - (ii) The Chartered Financial Analyst program administered by the CFA Institute; and
- (b) Experience ending no earlier than three years prior to the date of commencing to exercise discretionary authority over managed accounts of at least 5 years as an Approved Person actively engaged in advising on and trading in futures contracts or futures contracts options for customer accounts.

7. Commodity Futures Contracts and Options

7.1 The proficiency requirements for a Registered Representative or Investment Representative who deals with customers in futures contracts or futures contract options are successful completion of:

- (a) The Derivatives Fundamentals Course and the Futures Licensing Course, or
- (b) The Futures Licensing Course and the National Commodity Futures Examination administered by the Financial Industry Regulatory Authority.

8. Options

The proficiency requirement for a Registered Representative or Investment Representative who deals with customers in options is successful completion of:

- (a) The Derivatives Fundamentals Course and the Options Licensing Course, or
- (b) The Series 7 administered by the Financial Industry Regulatory Authority and the New Entrants Course.

B. General Exemption

- 1. The applicable District Council may, under Rule 20.24, exempt any person or class of persons from the proficiency requirements on such terms and conditions, if any, as the applicable District Council may see fit.

2. The Board may prescribe a fee to be paid for any exemption application under paragraph 1.”
16. Dealer Member Rule 2900, Part II is repealed and replaced by:

“RULE 2900

PROFICIENCY AND EDUCATION:

PART II – EXAMINATION REWRITE REQUIREMENTS AND COURSE AND EXAMINATION EXEMPTIONS

INTRODUCTION

This Part II outlines the exemptions that exist from the Corporation’s course and examination requirements for persons seeking to be approved in certain categories of registration. This Part II exempts applicants from the requirement to rewrite courses or examinations that they have successfully completed if they are re-entering the industry, re-registering in a category of registration or seeking initial registration within certain time periods. This Part II also provides exemptions to applicants from the requirements to initially write a course or examination if the applicant satisfies one of the specifically enumerated exemptions based on grandfathering provisions or the successful completion of other courses and examinations. In addition, this Part II sets out the basis upon which the applicable District Council may grant a discretionary exemption.

All courses and examinations, unless otherwise specified, are administered by CSI Global Education Inc.

A. Requirement to Rewrite Courses and Examinations

1. Current and Former Approved Persons

- (a) An applicant for approval who was previously approved in a category must complete a proficiency requirement if he or she has not been approved in the category to which the requirement applies within the three years prior to the date of application.
- (b) An Applicant or Approved Person who has previously conducted a particular type of business must complete a proficiency required to conduct the type of business if he or she has not conducted the type of business within the past three years.
- (c) Sections (a) and (b) do not apply to new or amended course requirements not required when the Approved Person or applicant for approval was initially approved or began to conduct the type of business, provided that the applicant was not under a requirement to complete the course or examination when the applicant’s approval lapsed.

2. Approval after Completion of Course

Subject to Rule 2900 Part II A.3(a), an applicant for approval who has never been approved or conducted a type of business must rewrite a required examination or course if it was completed more than two years before the date of application.

3. The Canadian Securities Course

- (a) An applicant for approval who has not previously been approved in a category or conducted a type of business requiring the Canadian Securities Course who would otherwise be required to rewrite the course is exempt if the applicant has:
 - (i) within two years prior to the date of application, successfully completed any one of the Professional Financial Planning Course, Wealth Management Techniques Course, Wealth Management Essentials Course, Investment Management Techniques Course, Portfolio Management Techniques Course, or the three levels of the Chartered Financial Analyst programme administered by the CFA Institute, or;
 - (ii) within three years prior to the date of application completed the New Entrants Course or the Canadian Securities Course
- (b) An applicant for approval in a category or to conduct business requiring the Canadian Securities Course who was approved in a category or conducted a type of business requiring the course and who would otherwise be required to rewrite the course is exempt if the applicant has within three years prior to the date of application successfully completed any one of the Professional Financial Planning Course, Wealth Management Techniques Course, Wealth Management Essentials Course, Investment Management Techniques Course, Portfolio Management Techniques Course, or the three levels of the Chartered Financial Analyst programme administered by the CFA Institute.

4. The Chief Financial Officers Qualifying Examination

An applicant who would otherwise be required to rewrite the Chief Financial Officers Qualifying Examination is exempt if the applicant has, since completing the Chief Financial Officers Qualifying Examination, been working closely with and providing assistance to a Chief Financial Officer.

5. The Derivatives Fundamentals Course

- (a) An applicant for approval or an Approved Person who will be dealing with customers in futures contracts or futures contracts options and who would otherwise be required to rewrite the Derivatives Fundamentals Course is exempt if the applicant or Approved Person has within the past two years completed the Futures Licensing Course or the Canadian Commodity Supervisors Examination.
- (b) An applicant for approval or an Approved Person who will be dealing with customers in options and who would otherwise be required to rewrite the Derivatives Fundamentals Course is exempt if the applicant or Approved Person has within the past two years completed the Options Licensing Course.

6. The Futures Licensing Course

Appendix A

An applicant for approval or an Approved Person who will be dealing with customers in futures contracts or futures contracts options and who would otherwise be required to rewrite the Futures Licensing Course is exempt if the applicant or Approved Person has within the past two years completed the Canadian Commodity Supervisors Examination.

7. The Wealth Management Essentials course

An applicant who would otherwise be required to rewrite the Wealth Management Essentials Course is exempt if the applicant is currently seeking approval within two years of successfully completing the Investment Management Techniques Course, Portfolio Management Techniques Course, 3 levels of the Certified Financial Analyst programme administered by the CFA Institute, Professional Financial Planning Course, or the Wealth Management Techniques Course.

8. 30-Day Training Program

An applicant is exempt from re-doing the 30-day training program required under Rule 2900 Part I 3(a)(i)(C)2 if, within three years prior to application, the applicant was approved for trading for Retail Customers in securities with a Dealer Member or by a recognized foreign regulatory authority or self regulatory organization or a Canadian securities regulatory authority.

9. 90-Day Training Program

An applicant is exempt from re-doing the 90-day training program required under Rule 2900 Part I 3(a)(i)(C)1 if, within three years prior to application, the applicant was approved for trading and advising Retail Customers in securities with a Dealer Member or by a recognized foreign regulatory authority or self regulatory organization or a Canadian securities regulatory authority.

B. Exemptions from Writing

1. Current and Former Approved Persons

- (a) An Approved Person is exempt from completing a new or amended proficiency requirement not in place at the time he or she was approved in a category unless the rule setting the requirement specifically provides otherwise.
- (b) An applicant for approval who was an Approved Person is exempt from completing a new or amended proficiency requirement not in place at the time of the applicant's previous approval in the same category for three years after the applicant's previous approval lapsed unless the rule setting the requirement specifically provides otherwise.

2. The Canadian Securities Course

An applicant is exempt from writing the Canadian Securities Course if the applicant has previously been registered or licensed with a recognized foreign regulatory authority or self-regulatory organization

Appendix A

and has successfully completed the New Entrants Course within two years of the application.

3. The Derivatives Fundamentals Course

An applicant is exempt from writing the Derivatives Fundamentals Course if the applicant is seeking approval within two years of successfully completing the Options Course Licensing Course, the Options Supervisors Course, the Futures Licensing Course, or the Canadian Commodity Supervisors Examination.

4. The Wealth Management Essentials Course

An applicant is exempt from writing the Wealth Management Essentials Course if the applicant

- (a) (i) has successfully completed the Investment Management Techniques Course or the Professional Financial Planning Course prior to July 4, 2008, having been enrolled prior to July 4, 2006 and
- (ii) is seeking approval within two years of successfully completing the Wealth Management Techniques Course or the Portfolio Management Techniques Course; or
- (b) Is seeking re-approval within three years of successfully completing the Wealth Management Techniques Course or the Portfolio Management Techniques Course.

5. 90-Day Training Program

An applicant is exempt from completing the 90-day training program if, within three years prior to application, the applicant was approved or registered with a Dealer Member, securities dealer or investment dealer; or by a recognized foreign regulatory authority or self regulatory organization; or as an investment advisor by a Canadian securities regulatory authority in a capacity permitting trading and advising in securities to Retail Customers.

6. 30-Day Training Program

An applicant is exempt from completing the 30-day training program if, within three years prior to application, the applicant was registered with a Dealer Member, securities dealer or investment dealer; or by a recognized foreign regulatory authority or self regulatory organization; or as an investment advisor by a Canadian securities regulatory authority in a capacity permitting trading in securities to Retail Customers.

C. Discretionary Exemptions

- (a) The applicable District Council may, under Rule 20.24, grant an exemption from the requirement to rewrite or write any required course or examination, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption, if the applicant demonstrates adequate experience and/or successful completion of industry courses or examinations that the applicable District Council, in

Appendix A

its opinion, determines is an acceptable alternative to the required proficiency.

- (b) The Board may prescribe a fee to be paid for any exemption application under this Rule 2900 Part II.”

17. Dealer Member Rule 2900, Part III is amended by:

- (a) Repealing and replacing Rule 2900 Part III, section C with the following:

“C. EXEMPTION FROM THE WHOLE OR PART OF THE PROGRAM

1. Partners, Directors and Officers approved in non-trading and non-supervisory categories of registration are exempt from the Program.
2. Participants approved as Registered Representatives and Supervisors, who have been continuously approved in a trading capacity for more than 10 years as of January 1, 2000 by a recognized Self Regulatory Organization (the Corporation, Toronto Stock Exchange, Montreal Exchange, Alberta Stock Exchange or Vancouver Stock Exchange), are exempt from the requirement to complete a professional development course. However, such persons shall complete a compliance course in each cycle throughout their career.”

- (b) Enacting new Schedule 1 as follows:

RULE 2900

PROFICIENCY AND EDUCATION:

PART III – THE CONTINUING EDUCATION PROGRAM

SCHEDULE 1

CONTINUING EDUCATION/APPROVAL CATEGORY CHART

Approval Category	Customer Type	Compliance course requirement	Professional development requirement
Registered Representative	Retail	Yes	Yes
Registered Representative	Institutional	Yes	No
Investment Representative	Institutional or Retail	Yes	No
Trader	Not Applicable	Yes	No
Supervisor of RRs dealing with	Retail	Yes	Yes

Appendix A

retail customers			
Supervisors supervising IRs only	Retail	Yes	No
Supervisors supervising options trading only	Institutional or Retail	Yes	No
Supervisors supervising futures contract and futures contract options only	Institutional or Retail	Yes	No
Ultimate Designated Person	Not Applicable	Yes	No
Chief Compliance Officer	Not Applicable	Yes	No

18. Terminology throughout Rules 1, 4, 7, 18, 20, 29, 38, 40, 1300, 1800, 1900, 2500, 2700 and 2900 is amended by replacing the text:
- (a) “approved person” with the text “Approved Person”;
 - (b) “Board of Directors” with the text “Board”;
 - (c) “director” with the text “Director”;
 - (d) “investment representative” with the text “Investment Representative”;
 - (e) “limited market dealer” with the text “exempt market dealer”;
 - (f) “Multilateral Instrument 33-102” with the text “National Instrument 33-102”;
 - (g) “Multilateral Instrument 33-109” with the text “National Instrument 33-109”;
 - (h) “officer” with the text “Officer”;
 - (i) “registered or approved person” with the text “Approved Person”; and

Appendix A

- (j) “registered representative” with the text “Registered Representative”.