

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**PLAIN LANGUAGE RULE 3200 – CLIENT ACCOUNTS**

**PROPOSED AMENDMENTS**

1. As part of a project to rewrite IIROC Rules in plain language, the following rules are repealed and replaced.

<b>Repealed current rule</b>	<b>Proposed plain language rule</b>
None	<p><b>3201. Introduction</b></p> <p>(1) This Rule sets out Dealer Members’ obligations to identify each client, and to learn and remain informed of the essential facts about each client, account and order accepted.</p> <p>(2) This Rule also sets out procedures required for opening new accounts, and updating existing accounts.</p>
1300.01(a) 1300.02 2500II(A.1) 2700II(1)	<p><b>PART A - IDENTIFICATION AND VERIFICATION REQUIREMENTS</b></p> <p><b>3202. Identifying all new clients</b></p> <p>(1) Each Dealer Member must use due diligence to establish:</p> <p>(i) the identity of every new client, and if there is any cause for concern, then make inquiries as to the reputation of the client;</p> <p>(ii) whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded.</p> <p>(2) Each Dealer Member must complete an account application for every new account in accordance with the requirements set out in this Rule.</p>
1300.01(e)(i) 1300.01(e)(ii) 1300.01(g) 1300.01(f)	<p><b>3203. Identifying accounts of trusts</b></p> <p>(1) When opening an initial account for a trust:</p> <p>(i) a Dealer Member must identify the settlor of the trust and as far as is reasonable, any known beneficiaries of more than 10% of the trust;</p> <p>(ii) a Dealer Member must verify the identity of each</p>

such individual beneficiary in paragraph 3203(1)(i) in accordance with the requirements set out in section 3205; and

- (iii) a Dealer Member must not open a trust account unless it first identifies the individual beneficiaries referred to in paragraph 3203(1)(i) and determines whether any of the beneficiaries are either insiders or controlling shareholders of one or more public corporations.

- (2) Subsection 3203(1) does not apply to a testamentary trust or a trust that has issued publicly traded units.

1300.01(b)(i)  
1300.01(b)(ii)  
1300.01(c)(i)  
1300.01(c)(ii)  
1300.01(d)  
1300.01(g)  
1300.01(i)  
1300.01(j)  
1300.01(k)

**3204. Identifying accounts of corporations and similar entities**

- (1) When opening an initial account for a corporation, partnership or similar entity:
  - (i) each Dealer Member must identify any individual who is the beneficial owner, or exercises direct or indirect control or direction over, more than 10% of the corporation or similar entity.
  - (ii) each Dealer Member must verify the identity of such beneficial owner in paragraph 3204(1)(i) in accordance with the requirements set out in section 3205.
  - (iii) a Dealer Member must not open an account unless it identifies the individual beneficial owners in paragraph 3204(1)(i) and determines whether one or more of them are insiders and/or controlling shareholders of one or more public corporations.
- (2) Subsection 3204(1) does not apply to:
  - (i) a corporation, partnership or similar entity that is, or is an affiliate of, a bank, trust or loan company, credit union, caisse populaire, insurance company, mutual fund, mutual fund management company, pension fund, securities dealer or broker, investment manager or similar financial institution that is subject to a satisfactory regulatory regime in the country in which

it is located; or

(ii) a corporation, partnership or similar entity whose securities are publicly traded, or an affiliate thereof.

- (3) An institution referred to in paragraph 3204(2)(i) is not deemed to be subject to a satisfactory regulatory regime if it is exempted from the substantive requirements of the regulatory regime.
- (4) The Corporation may rule that the exemption in subsection 3204(2) does not apply to a specific financial institution, class of institutions or all institutions located in a particular country.
- (5) A Dealer Member must not open an account for a shell bank which is defined as a bank that does not have a physical presence in any country.
- (6) Subsection 3204(4) does not apply to a bank that is an affiliate of a bank, loan or trust company, credit union, or other depository institution with a physical presence in Canada or in a foreign country in which the depository institution is subject to supervision by a banking or other similar regulatory authority.

1300.01(b)(ii)  
1300.01(e)(ii)  
1300.01(h)  
1300.01(m)

**3205. Identity verification**

- (1) For each beneficial owner in paragraphs 3203(1)(i) and 3204(1)(i), the Dealer Member must verify the identity of such individual by using methods that allow the Dealer Member to form a reasonable belief that it knows the true identity of the individual.
- (2) The identity of such individual in subsection 3205(1) must be verified as soon as practicable and not more than six months after opening the account.
- (3) If the identity of such individuals referred to in subsection 3205(1) cannot be verified within six months of opening an account, the Dealer Member must restrict the account to liquidating trades, transfers of securities and paying out funds or delivering securities. These account restrictions must remain in place until the Dealer Member completes the verification.

*[3206 Reserved]*

1300.02

**PART B - ACCOUNT INFORMATION AND RECORDS**

**3207. Account information**

- (1) For each new account, each Dealer Member must obtain and maintain the applicable information required by Form 2.
- (2) For each Institutional Client, the Dealer Member must verify that the client qualifies as an Institutional Client.
- (3) The Dealer Member must record the account number on the account application.
- (4) Each Dealer Member must ensure that all new account documentation and records meet the requirements of all other laws and regulations applicable to the Dealer Member's business separately or in combination with the IROC related documentation requirements.

200.01(i)(2) &  
Guide to  
Interpretation

**3208. Margin Account Agreement**

- (1) Prior to opening a margin account, each Dealer Member must:
  - (i) deliver a Margin Account Agreement to the client; and
  - (ii) obtain an executed copy of the Margin Account Agreement from the client.
- (2) Each Dealer Member's Margin Account Agreement must, at a minimum, contain a written description of the following rights and obligations:
  - (i) the client's obligation to pay their indebtedness to the Dealer Member and to maintain adequate margin;
  - (ii) the client's obligation to pay interest on debit balances in their account;
  - (iii) the Dealer Member's right to raise money and pledge assets held in the client's account;
  - (iv) the extent of the Dealer Member's right to use free

credit balances in the client's account;

- (v) the Dealer Member's right to sell assets in the client's account and make purchases to cover short sales. If the client requires prior notice, the Member must set out the nature of the notice and the client's obligations to remedy any deficiency;
- (vi) the extent of the Dealer Member's right to use a security in the client's account for delivery against a short sale;
- (vii) the extent of the Dealer Member's right to use a security in the client's account for delivery against a short sale in an account for the Dealer Member, a partner or director;
- (viii) the extent of the Dealer Member's right to use assets in the client's account and to hold them as security for the client's debt; and
- (ix) that all transactions are subject to requirements of the Corporation and the exchange under which the transaction has been carried out.

29.26

**3209. Leverage Risk Disclosure Statement**

- (1) When opening a new account, prior to making a recommendation to a retail client to purchase securities using borrowed money, or becoming aware of a client's intent to purchase securities using borrowed money, a Dealer Member must:
  - (i) provide each client with a copy of the Leverage Risk Disclosure Statement; and
  - (ii) obtain the client's written acknowledgement that they are in receipt of the disclosure statement referred to in paragraph 3209(1)(i)
- (2) A Dealer Member is not required to comply with subsection 3209(1) where:
  - (i) it has provided the client with a Leverage Disclosure Statement in accordance with subsection 3209(1), within the last six months; or

(ii) it is subject to the requirements set out in section 3208 and complies accordingly.

(3) A leverage risk disclosure statement must be in substantially the following words:

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

2500II(C.1)  
2500II(C.2)

**3210. Client mail**

(1) A Dealer Member’s hold-mail account procedures must at a minimum include the following provisions:

- (i) a requirement that the Dealer Member obtain written authorization from the client to “hold mail”;
- (ii) a requirement that limits the length of time that a “hold mail” order may remain in force for no longer than 6 months, in any 12 month period; and
- (iii) a rule requiring the control and regular review of “hold mail” accounts by a Supervisor.

(2) Notwithstanding paragraph 3210(1)(ii), a longer period may be in force if:

- (i) it is permitted by the Dealer Member’s policies and procedures;
- (ii) the Dealer Member has policies and procedures to closely supervise such accounts; and
- (iii) the appropriate Supervisor pre-approves the extended period.

(3) A Dealer Member’s returned mail procedures must at a minimum include the following provisions:

- (i) a rule requiring the control and investigation by a person independent of the sales function, but may be

located within a Business Location; and

- (ii) a rule requiring that a record of all investigations and their results be maintained.

*[3211 -3219 Reserved]*

2500II(A.4)  
1300.01(n)  
200.01(i)(1)  
200.01(i)(3)

**PART C - ACCOUNT OPENING AND UPDATING PROCEDURES**

**3220. Record keeping**

- (1) Each Dealer Member must maintain a record for each account that includes:
  - (i) a complete set of documentation consisting of any information, disclosure statement or agreement that the Dealer Member is required to provide to or obtain from the client in accordance with IIROC Dealer Member Rules including, but not limited to, copies of the completed account applications;
  - (ii) the name and address of the account guarantor, if applicable; and
  - (iii) a signed trading authorization from a person other than the account holder, authorized to direct orders for the account, if applicable.
- (2) The Registered Representative responsible for an account must retain a current copy of each account application. This requirement can be satisfied where a Dealer Member maintains information in an electronic application accessible to the Registered Representative.
- (3) Each Dealer Member must keep records of all information obtained and identity verification procedures completed in accordance with the record retention requirements.

2500II  
Introduction  
2500II(A.2)  
2500 II(A.5)  
2500II(B.1)  
2500II(B.3)  
2500II(B.4)  
2500I(F.1)

**3221. Account opening procedures**

- (1) Each Dealer Member must establish procedures to:
  - (i) collect and maintain accurate, complete and up-to-date information about each client; and
  - (ii) ensure the proper completion of documentation when opening new accounts.

- (2) A Dealer Member must also:
  - (i) have procedures in place to ensure that supporting documents are received within a reasonable period of time after opening an account;
  - (ii) have a system for recording pending account documentation and following up where it is not received in a reasonable time;
  - (iii) take specific action to obtain required documents that have not been received within 25 or more business days of opening the account, unless a shorter period is prescribed;
  - (iv) have policies and procedures for verifying material changes to client information, which may include the receipt of a signed client acknowledgement of the changed information; and
  - (v) have a system in place to record the review and approval by the Supervisor.

800.11  
2500II(A.2)  
2500II(A.3)  
2500II(A.7)  
2700II(3)

**3222. Opening new client accounts**

- (1) Each Dealer Member may only assign an account number to a new account if it includes the full and accurate name and address of the client; the complete account application must be received no later than the following business day.
- (2) The Designated Supervisor must ensure that the account application is completed and at a minimum includes the information required by the Corporation. Completed means that all information necessary to identify the client and to assess suitability, creditworthiness and risk tolerance have been obtained.
- (3) A Designated Supervisor must approve each new account no later than one business day after completing the initial trade for the account.
- (4) A Dealer Member may use an alternative procedure to approve new accounts on an interim basis, provided the Designated Supervisor provides final approval no later than one business day after the initial trade.

2500II(A.5)  
2500II(A.6)  
2700II(4)

- (5) Before opening an account for an employee of another Dealer Member, the Dealer Member must obtain written approval from the client's employer, and must designate the account as non-client.

**3223. Updating client accounts**

- (1) Each Dealer Member must ensure that Registered Representatives update account application, on a timely basis, to reflect any material change in a client's information.
- (2) The Dealer Member's policies and procedures must stipulate that any changes to an account application are approved in the same way that an account application is approved for a new account.
- (3) If a client's Registered Representative changes, the Dealer Member's procedures must require that:
  - (i) the new Registered Representative verify the information in the account application with the client as soon as practicable to ensure the information is correct;
  - (ii) the new Registered Representative and their Supervisor must acknowledge, in writing, that the account application was reviewed and, if necessary, updated;
  - (iii) if the client's account application was approved within the past two years, the Dealer Member may use a copy of a client's current account application, but must have the Registered Representative and their Supervisor initial any changes; and
- (4) The Dealer Member must restrict the access of Registered Representatives and other persons to its systems in such a manner so as to ensure that material information cannot be changed without the required approval.

*[3224 -3229 Reserved]*

2700  
Introduction  
2700II(2)

**3230. Institutional client accounts**

- (1) Each Dealer Member that opens accounts for Institutional Clients must implement the policies and procedures required by Rule 3200, relating to the opening and maintenance of Institutional Client accounts.
- (2) Sub-Account files of an Institutional Client may refer to the documentation contained in the master file to which it is related.

*[3231 -3239 Reserved]*

1300.01(t)  
3200A.3(a)  
3200A.3(b)  
3200A.3(c)  
3200A.3(d)  
3200B.1  
3200B.3(a)  
3200B.3(b)  
3200B.3(c)  
3200B.3(d)

**3240. Order execution-only services**

- (1) Each Dealer Member approved by the Corporation to provide order execution only services must implement the policies and procedures required by Rule 3200, as applicable to its order-execution only business.
- (2) A Dealer Member in subsection 3240(1), prior to opening an account must:
  - (i) provide a written disclosure to the client that includes a statement confirming that the Dealer Member will not provide advice to the client or be responsible for suitability determinations;
  - (ii) provide a written disclosure to the client explaining that the client is solely responsible for investment decisions, and that the Dealer Member will not consider the client’s financial situation, investment knowledge, investment objectives nor risk tolerance when accepting orders from the client; and
  - (iii) obtain an acknowledgement, in positive form, from the client and all beneficial owners of the account, confirming that the client and each beneficial owner has received and understands the disclosure stipulated in paragraphs 3240(1)(i) and(ii).
- (3) Each Dealer Member in subsection 3240(1) must maintain a record of the acknowledgement referred to in paragraph 3240(2)(iii), which can be in the form of:

- (i) the client’s signature or initials on a new client form or other document, specifically related to the disclosure and acknowledgement;
  - (ii) an electronic acknowledgement attached to the disclosure and acknowledgement text; or
  - (iii) a tape recording of a verbal acknowledgement.
- (4) Each Dealer Member that provides an order-execution only service in advisory accounts must also:
- (i) provide a client with a description of what does or does not constitute a recommendation and instructions on how the client can report trades which have not been accurately designated as recommended or non-recommended; and
  - (ii) ensure all trades are marked “recommended” or “non-recommended” rather than “solicited” or “not solicited.”.

[3241-3249 Reserved]

None

**PART D - OPTIONS CONTRACTS, FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS**

**3250. Introduction**

- (1) This part sets out the Corporation’s requirements for opening and administering options, futures and futures options contract trading accounts.
- (2) A Dealer Member must ensure that persons trading on its behalf or advising clients in options, futures and futures contract options trading accounts meet minimum proficiency requirements.

**OPTIONS CONTRACTS**

**3251. Opening an options account**

- (1) Before entering an options contract trade, a Dealer Member must:
  - (i) obtain a completed Options Account Application Form from the client;

1900.02(b)  
1900.02(c)  
1900.02(d)(i)  
1900.06(b)  
2500V(A.1)  
2500V(A.2)  
2500V(A.3)  
2500V(A.4)

- (ii) obtain a signed Option Trading Agreement, from the client;
  - (iii) provide the client with the most recent Options Disclosure Statement or similar disclosure document; and
  - (iv) record the appropriate Designated Supervisor's approval in writing.
- (2) The Designated Supervisor must ensure that the Registered Representative is aware of any trading restrictions.

1900.06(a)  
2500V(A.2)

**3252. Options Trading Agreement**

- (1) A Dealer Member's Options Trading Agreement must define the rights and obligations between the Dealer Member and the client, and at a minimum must include the following:
- (i) the time periods when the Dealer Member will accept orders for execution;
  - (ii) the Dealer Member's right to exercise discretion in accepting orders;
  - (iii) the Dealer Member's obligations when errors and omissions occur;
  - (iv) the method for distributing exercise assignment notices;
  - (v) the Dealer Member's deadlines for a client to submit an exercise notice;
  - (vi) a notice that:
    - (a) the Dealer Member may set maximum limits on short positions;
    - (b) the Dealer Member may apply cash-only terms during the last 10 days before expiry; and
    - (c) the Corporation may impose other rules affecting existing or subsequent transactions.
  - (vii) the client's obligation to instruct the Dealer Member to close positions before expiry;

- (viii) the client's obligation to comply with the Corporation's requirements and any entity's requirements through which the options contract is traded, including complying with position and exercise limits;
- (ix) the client's acknowledgement of receiving the current Options Disclosure Statement;
- (x) any other matter required by an options contract trading or clearing entity.

1900.06(b)

**3253. Letter of undertaking**

- (1) Instead of an Options Trading Agreement, a Dealer Member may obtain a letter of undertaking for accounts where the client is:
  - (i) an acceptable institution;
  - (ii) an acceptable counterparty; or
  - (iii) a regulated entity
- (2) The letter of undertaking must state that the client agrees to abide by the Corporation's requirements, and the requirements of any entity through which options contracts are traded or cleared, including compliance with position and exercise limits.

1900.02(d)

**3254. Options Disclosure Statement**

- (1) A Dealer Member must:
  - (i) provide each options contract client with the current disclosure statement or other similar document, approved by the Corporation, before accepting an options contract order from the client;
  - (ii) obtain the client's acknowledgement of receipt of the disclosure statement or similar document in paragraph 3254(1)(i);
  - (iii) provide each options contract client with any amendments to the disclosure statement or similar document, as approved by the Corporation; and
  - (iv) maintain a record of the names and addresses of all

clients to whom it has provided a risk disclosure statement or similar document, including any amendments.

1900.02(e)

**3255. Position and exercise limits**

- (1) A Dealer Member must comply with the requirements of any entity through which it trades or clears an options contract.
- (2) A Dealer Member must comply with the position and exercise limits that apply under subsection 3255(1).

1800.02(b)

1800.02(c)

1800.02(d)(i)

2500VI(A.1)

2500Vi(A.2)

2500VI(A.4)

**FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS**

**3256. Opening a futures or futures contract option account**

- (1) Before entering a futures contract or futures contract option trade, a Dealer Member must:
  - (i) obtain a completed Futures Account Application Form from the client;
  - (ii) obtain a signed Futures or Futures Contract Options Trading Agreement from the client;
  - (iii) provide the client with the most recent Risk Disclosure Statement or similar statement; and
  - (iv) record the appropriate Designated Supervisor's approval in writing.
- (2) The appropriate Designated Supervisor must indicate any trading restrictions on the futures account approval form or the futures contract options approval form.

1800.09

2500VI(A.5)

**3257. Futures and Futures Contract Options Trading Agreement**

- (1) A Dealer Member's Futures and Futures Contract Option Trading Agreement must define the rights and obligations of the Dealer Member and the client, which at a minimum must include the following:
  - (i) the time periods during which the Dealer Member accepts orders;
  - (ii) the Dealer Member's right to exercise discretion in

- accepting orders;
- (iii) the Dealer Member's obligations when errors or omissions occur;
- (iv) the Dealer Member's right to impose trading limits and/or closeout positions under specified conditions;
- (v) for futures contract options, the method for distributing exercise assignment notices and the client's obligation to instruct the Dealer Member to close out contracts before the expiry date;
- (vi) the conditions under which the Dealer Member may apply the client's funds, securities or other property in other accounts to satisfy outstanding debts or margin calls;
- (vii) the extent of the Dealer Member's right to use free credit balances in the client's account for its own business or to cover debits in the same or other accounts;
- (viii) the requirement for the Dealer Member to obtain client consent in order for the Dealer Member to take the other side of the client's transaction, and whether the client provides such consent;
- (ix) the Dealer Member's right to raise money on, and pledge securities or other assets in, the client's account;
- (x) the extent of the Dealer Member's right to deal with securities and other assets in the client's account and to hold them as collateral against the client's debts;
- (xi) the Dealer Member's right to provide information to its regulators regarding reporting and position limits;
- (xii) the client's obligations to comply with reporting, position limit and exercise limit requirements that the commodity futures exchange or its clearing house establishes;
- (xiii) a statement that the Dealer Member requires a client to maintain a minimum margin that is the greater of:

- (a) the amount the commodity futures exchange or clearing house prescribes;
- (b) the Corporation's requirements; and
- (c) the Dealer Member's requirements;
- (xiv) the client's obligation to maintain adequate margin and security and to pay any debts to the Dealer Member;
- (xv) a statement that the Dealer Member may commingle and use the client's margin funds or property in its own business;
- (xvi) the client's obligations to pay commission, if any;
- (xvii) the client's obligation to pay interest on debit balances in the account, if any;
- (xviii) any discretionary authority given to the Dealer Member must be clearly explained and specifically confirmed by the client, unless such discretionary authority is provided in another document. The authority must be consistent with the requirements contained within Rule 3200;
- (xix) the client's acknowledgement that they have received the Risk Disclosure Statement; and
- (xx) other than for a hedging account, a risk disclosure limit for futures trading indicating the maximum amount of cumulative losses the client can sustain which can be:
  - (a) on a life time basis; or
  - (b) on an annual basis, provided that it is updated annually.

1800.10

**3258. Letters of undertaking**

- (1) Instead of a Futures or Futures Contract Options Trading Agreement, a Dealer Member may obtain a letter of undertaking for accounts where the client is:
  - (i) an acceptable institution;
  - (ii) an acceptable counterparty;

- (iii) a regulated entity; or
- (iv) another adviser registered under any applicable legislation relating to trading or advising in respect of futures contracts or futures contract options.

(2) The letter of undertaking must state that:

- (i) the client agrees to abide by the Corporation's requirements and the requirements of any entity through which futures contracts or futures contract options are traded or cleared, including complying with position and exercise limits; and
- (ii) if the client has an account that is charged interest on a debit balance, the conditions under which transfers of the client's funds, securities or other property in other accounts may be made between accounts (unless these conditions are acknowledged by the client in another document).

2500VI(A.3)

**3259. Verification of hedgers**

- (1) A Dealer Member must have procedures to verify a client's status as a hedger, which can include the use of a hedge letter, before granting approval to a client as a hedger.

1800.02(d)

**3260. Risk Disclosure Statement**

- (1) A Dealer Member must:
  - (i) provide the client with the current Risk Disclosure Statement or other similar document, approved by the Corporation, before accepting a futures contract or futures contract options account;
  - (ii) obtain the client's acknowledgement of receipt of the Risk Disclosure Statement or similar document in paragraph 3260(1)(i);
  - (iii) provide each futures contract or futures contract options client with any amendments to the Risk Disclosure Statement or similar document, approved by the Corporation; and
  - (iv) maintain records showing the names and addresses

of all clients to whom it has sent a Risk Disclosure Statement or similar documents, including any amendments.

*[3261-3269 Reserved]*

None

**PART E - Discretionary and Managed Accounts**

**3270. Introduction**

- (1) This part sets out requirements relating to the opening and maintenance of discretionary and managed accounts.
- (2) Each Dealer Member must ensure that persons trading on its behalf, in discretionary or managed accounts, meet the minimum proficiency requirements.

1300.03

**3271. Prohibition against discretionary trading**

- (1) Each Dealer Member must ensure that persons trading on its behalf do not engage in any discretionary trading, including time and price discretion, unless discretion is exercised in a discretionary or managed account in accordance with the requirements set out in Rule 3200.

2500(VII)  
Introduction  
2500VII(A.1)  
2500VII(A.2)  
2500VII(A.3)  
1300.04(a)  
1300.04(b)  
1300.04(c)  
1300.05(b)

**DISCRETIONARY ACCOUNTS**

**3272. Accepting a Discretionary Account**

- (1) For the purposes of this Rule, a discretionary account is an account in which:
  - (i) the discretionary authority has not been solicited;
  - (ii) the discretion is accepted to accommodate a client who is frequently or temporarily unavailable to authorize trades; and
  - (iii) the term of the discretionary authority does not exceed twelve months.
- (2) To accept discretionary accounts:
  - (i) the Dealer Member must designate one or more Supervisors, who meet the proficiency requirements set out in Rule 2600, to be responsible for the discretionary accounts;

- (ii) the Dealer Member must have proper and adequate supervisory policies and procedures designed to ensure the proper operation of discretionary accounts in accordance with Rule 3900;
- (iii) the Dealer Member must identify discretionary accounts in its books and records to allow supervision of the discretionary accounts in accordance with Rule 3900;
- (iv) the Dealer Member must enter into a Discretionary Account Agreement with the client prior to accepting the account as a discretionary account;
- (v) the Designated Supervisor must approve the account as a discretionary account, and approve the Discretionary Account Agreement signed by the client; and
- (vi) the Dealer Member must maintain a record of the Designated Supervisor's approval.

2500VII(A.2)  
1300.05

**3273. Discretionary Account Agreement**

- (1) A Discretionary Account Agreement must:
  - (i) define the extent of the discretionary authority given to the Dealer Member by the client;
  - (ii) include any restrictions on the trading authorization;
  - (iii) have a maximum term of 12 months; and
  - (iv) set out the terms of termination in accordance with subsection 3273(2).
- (2) A Discretionary Account Agreement may only be terminated by written notice:
  - (i) by the client, effective when received by the Dealer Member, except for orders entered prior to receipt of the notice; or
  - (ii) by the Dealer Member, effective not less than 30 days from the mailing date of the notice to the client.

1300.04(d)  
1300.04(e)

**3274. Persons authorized to effect discretionary trades**

- (1) A Registered Representative may only be authorized to effect trades for a discretionary account if:
  - (i) the Registered Representative has at least two years experience in trading, advising or performing analysis with respect to all types of products that are to be traded on a discretionary basis; and
  - (ii) the discretionary account is maintained at the Dealer Member of the Registered Representative.

1300.18  
2500VII(B.2)

**3275. Conflict of Interest**

- (1) A discretionary account must not acquire any publicly traded securities of the Dealer Member or its affiliates.
- (2) A Dealer Member and the person referred to in section 3274 must not trade for his or her or the Dealer Member's own accounts, or arrange or knowingly permit for any associate or affiliate to trade, in reliance upon the information relating to trades made or to be made in any discretionary account.

*[3276-3279 Reserved]*

1300.03  
1300.07(b)  
1300.07(c)  
1300.07(d)  
1300.15  
Introduction  
1300.15(b)

**MANAGED ACCOUNTS**

**3280. Opening a Managed Account**

- (1) For the purpose of this Rule, a managed account is one in which:
  - (i) the investment portfolios were solicited for discretionary management on a continuing basis; and
  - (ii) the investment decisions are made on a continuing basis by the Dealer Member or a third party hired by the Dealer Member.
- (2) To accept managed accounts:
  - (i) the Dealer Member must designate a Supervisor to be responsible for managed accounts;

- (ii) the Dealer Member must have proper policies and procedures to handle managed accounts in accordance with Rule 3900;
- (iii) the Dealer Member must enter into a Managed Account Agreement with the client prior to opening a managed account;
- (iv) the Designated Supervisor must approve the managed account in writing;
- (v) the Dealer Member must retain a record of the Supervisor's approval;
- (vi) the Dealer Member must provide the client with a copy of its policy ensuring fair allocation of investment opportunities.

1300.08

**3281. Managed Account Agreement**

- (1) The Managed Account Agreement must:
  - (i) describe or refer to the client's investment objectives and risk tolerance that are applicable to the managed account or accounts;
  - (ii) describe any investment restrictions imposed by the client, where permitted by the Dealer Member; and
  - (iii) set out the terms of termination in accordance with subsection 3281(2).
- (2) The Managed Account Agreement may only be terminated by written notice:
  - (i) by the client, effective on receipt by the Dealer Member, except for transactions entered prior to receipt of the notice; or
  - (ii) by the Dealer Member, effective not less than 30 days from the date of mailing the notice to the client.

1300.07(a)

**3282. Persons authorized to deal with managed accounts**

- (1) Each Dealer Member must designate an individual authorized to deal with managed accounts who is:
  - (i) a Portfolio Manager in accordance with Rule 2600; or

- (ii) a sub-advisor with whom the Dealer Member has entered into a written sub-advisor agreement.
- (2) The sub-advisor in paragraph 3282(1)(ii) must be:
  - (i) 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
  - (ii) subject to legislation or regulations containing conflict of interest provisions at least equivalent to those set out in section 3283 or has entered into an agreement with the Dealer Member that it will comply with section 3283.

1300.18  
1300.19

**3283. Conflicts of Interest**

- (1) A Dealer Member or a person referred to in section 3282 must not trade for his or her or the Dealer Member's own account, or arrange or knowingly permit any associate or affiliate to trade in reliance upon information relating to trades made or to be made in a managed account.
- (2) A Dealer Member or a person in section 3282 must not, without the written consent of the client, knowingly allow a managed account to:
  - (i) invest in a security or derivative of an issuer that is related or connected to the Dealer Member;
  - (ii) invest in a security or derivative of an issuer if the person in section 3282 is an officer or director of the issuer unless the position of the Dealer Member or the person in section 3282 with the issuer is disclosed to the client;
  - (iii) invest in new issues or secondary offerings underwritten by the Dealer Member; or
  - (iv) purchase or sell a security or derivative of an issuer from the account of a person in section 3282, or affiliate of such person.

1300.20

**3284. Application of client priority rule**

- (1) Section 3505 (the client priority rule) does not apply to the accounts of partners, Directors, Officers, Approved Persons or Employees of a Dealer Member who participate in a managed account program on the same basis as client accounts, except with regards to the accounts of any such persons involved in the investment decision process.

1300.16

1300.17

1300.21

**3285. Fees and remuneration**

- (1) A Dealer Member may not charge a client directly for services rendered to the managed account, that is:
  - (i) based upon the volume or value of transactions in the account initiated for the account; or
  - (ii) contingent upon profit or performance of the client's account

unless the client has provided the Dealer Member with a written agreement which sets out the manner in which the fees may be charged based on volume or value of transactions or contingent upon profit or performance.

- (2) A Dealer Member must not compensate the person referred to in section 3282, on the basis of the value or volume of transactions in the account.