

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**  
**TEXT OF THE CURRENT RELEVANT PROVISIONS OF DEALER MEMBER RULES 17, 29, 200,**  
**800, 1300, 1500, 1800, 1900, 2500, 2700 AND 3200**

**RULE 17**

**DEALER MEMBER MINIMUM CAPITAL, CONDUCT OF BUSINESS AND INSURANCE**

.  
.

17.14. A Dealer Member engaged in trading in any securities or commodity futures contracts or options listed on or issued by a recognized stock exchange, commodity futures exchange, clearing or service corporation, or other listing or issuing organization, as the case may be, in respect of which the Rules or any Rulings do not prescribe specific standards or requirements, shall comply with the provisions of the relevant bylaws and regulations of such stock exchange, commodity futures exchange, clearing or service corporation, or other listing or issuing organization in effect from time to time to the extent not inconsistent with the Rules. For the purposes of this Rule 17.14, the Board of Directors shall, from time to time, designate recognized stock exchanges, futures exchanges, clearing or service corporations, or other listing or issuing organizations.

.  
.

**RULE 29**

**BUSINESS CONDUCT**

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.29.2. During the period of distribution to the public (as that term is defined in the relevant securities legislation) of any securities a Dealer Member shall not offer for sale or accept any offer to buy all or any part of the securities acquired by such Dealer Member through its participation in

**ATTACHMENT C**

such distribution as an underwriter or as a member of a banking or selling group at a price or prices in excess of the stated initial public offering price of such securities.

.  
.

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.

.  
.

29.26

(1)

(a) Each Dealer Member, or partner, 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 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 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.

.  
.

**RULE 200**

**MINIMUM RECORDS**

200.1. As required under Rule 17.2 every Dealer Member shall make and keep current books and records necessary to record properly its business transactions and financial charts including, without limitation:

•  
•

- (i) A record in respect of each cash and margin account:
  - (1) The name and address of the beneficial owner (and guarantor, if any) of such account,
  - (2) In the case of a margin account a properly executed margin agreement containing the signature of such owner (and guarantor, if any), and
  - (3) Where trading instructions are accepted from a person or corporation other than the customer, written authorization or ratification from the customer naming the person or company,

But, in the case of a joint account or an account of a corporation, such records are required only in respect of the person or persons authorized to transact business for such account;

•  
•

Guide to interpretation of Rule 200.1

•  
•

- (i) "Records of Cash and Margin Accounts"

A margin agreement between a Dealer Member and a customer shall define at least the following:

  - (i) The obligation of the customer in respect of the payment of his or her indebtedness to the Dealer Member and the maintenance of adequate margin and security;
  - (ii) The obligation of the customer in respect of the payment of interest on debit balances in his or her account;
  - (iii) The rights of the Dealer Member in respect of raising money on and pledging securities and other assets held in the customer's account;
  - (iv) The extent of the right of the Dealer Member to make use of free credit balances in the customer's account;
  - (v) The rights of the Dealer Member in respect of the realization of securities and other assets held in the customer's account and in respect of purchases to cover short sales, and whether any prior notice is required, and if notice be

## **ATTACHMENT C**

required, the nature and extent of it and the obligations of the customer in respect of any deficiency;

- (vi) The extent of the right of the Dealer Member to utilize a security in the customer's account for the purpose of making a delivery on account of a short sale;
- (vii) The extent of the right of the Dealer Member to use a security in the customer's account for delivery on a sale by the Dealer Member for his or her or its own account or for any account in which the Dealer Member, any partner therein or any director thereof, is directly or indirectly interested;
- (viii) 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; and
- (ix) That all transactions entered into on behalf of the customer shall be subject to the Rules of the Investment Industry Regulatory Organization of Canada and/or any securities exchange if executed thereon.

•  
•

### **RULE 800**

#### **TRADING AND DELIVERY**

•  
•

800.11. Dealer Members will not deal, either directly or indirectly, with or for the personal account of any employee of other Dealer Members without the written consent of a director or partner of the employee's firm.

•  
•

### **RULE 1300**

#### **SUPERVISION OF ACCOUNTS**

1300.1.

##### **Identity and Creditworthiness**

- (a) Each Dealer Member shall use due diligence to learn and remain informed of the essential facts relative to every customer and to every order or account accepted.
- (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

## ATTACHMENT C

- 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.
- (c) Subsection (b) does not apply to:
- (i) a corporation 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 subject to a satisfactory regulatory regime in the country in which it is located
  - (ii) a corporation or similar entity whose securities are publicly traded or an affiliate thereof.
- (d) The Corporation may, at its discretion, direct Dealer Members that the exemption in subsection (c) does not apply to some or all types of financial institutions located in a particular country.
- (e) When opening an initial account for a trust, a Dealer Member shall:
- (i) ascertain the identity of the settlor of the trust and, as far as is reasonable, of any known beneficiaries of more than 10% of the trust, including the name, address, citizenship, occupation and employer of each such settlor and beneficiary and whether any is an insider or controlling shareholder of a publicly traded corporation or similar entity.
  - (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.
- (f) Subsection (e) does not apply to a testamentary trust or a trust whose units are publicly traded.
- (g) If a Dealer Member, on inquiry, is unable to obtain the information required under subsections (b)(i) and (e)(i), the Dealer Member shall not open the account.

## **ATTACHMENT C**

- (h) If a Dealer Member is unable to verify the identities of individuals as required under subsections (b)(ii) and (e)(ii) within six months of opening the account, the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities only until such time as the verification is completed.
- (i) No Dealer Member shall open or maintain an account for a shell bank.
- (j) For the purposes of section (i) a shell bank is a bank that does not have a physical presence in any country.
- (k) Subsection (i) does not apply to a bank which is an affiliate of a bank, loan or trust company, credit union, other depository institution that maintains a physical presence in Canada or a foreign country in which the affiliated bank, loan or trust company, credit union, other depository institution is subject to supervision by a banking or similar regulatory authority.
- (l) Any Dealer Member having an account for a corporation, similar entity or trust other than those exempt under subsections (c) and (f) and which does not have the information regarding the account required in subsections (b)(i) and (e)(i) at the date of implementation of those subsections shall obtain the information within one year from date of implementation of subsections (b) and (e).
- (m) If the Dealer Member does not or cannot obtain the information required under subsection (l) the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities until such time as the required information has been obtained.
- (n) Dealer Members must maintain records of all information obtained and verification procedures conducted under this Rule 1300.1 in a form accessible to the Corporation for a period of five years after the closing of the account to which they relate.

### **Business Conduct**

- (o) Each Dealer Member shall use due diligence to ensure that the acceptance of any order for any account is within the bounds of good business practice.

.  
.

### **Corporation Approval**

- (t) The Corporation, in its discretion, shall only grant such approval where the Corporation is satisfied that the Dealer Member will comply with the policies and procedures outlined in Rule 3200. The application for approval shall be accompanied by a copy of the policies and procedures of the Dealer Member. Following such approval, any material changes in the policies and procedures of the Dealer Member shall promptly be submitted to the Corporation.

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**

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:

## ATTACHMENT C

- (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
- (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.

•  
•

1300.7. 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

## ATTACHMENT C

- (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.
  - (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.
- 
- 
- 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:

## ATTACHMENT C

(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.

•  
•

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.

1300.18. No Dealer Member or responsible person shall trade for his or her or the Dealer Member's own account, or knowingly permit or arrange for any associate or affiliate to trade, in reliance upon information as to trades made or to be made for any discretionary or managed account.

1300.19. No Dealer Member or responsible person shall, without the written consent of the client, knowingly cause any managed account to:

(a) invest in the securities of, or a futures contract or option that is based on the securities of, the Dealer Member or an issuer that is related or connected to the Dealer Member;

(b) invest in the securities of any issuer, or a futures contract or option that is based on the securities of an issuer, of which a responsible person is an officer or director, and no such investment shall be made even with the written consent of the client unless such office or directorship shall have been disclosed to the client;

(c) invest in new or secondary issues underwritten by the Dealer Member;

(d) purchase or sell the securities of any issuer, or a futures contract or option that is based on the securities of an issuer, from or to the account of a responsible person, or from or to the account of an associate of a responsible person; or

(e) make a loan to a responsible person or to an associate of a responsible person.

A Dealer Member or related company or a partner, Director, Officer, employee or associate of either of them shall be deemed not to have breached any provision of this Rule 1300.19 in connection with any trade or activity if conducted in compliance with any securities legislation or rule, policy, directive or order of any securities commission which specifically applies to the trade or activity.

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 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.

**RULE 1500**

**CONDUCT AND PRACTICES HANDBOOK FOR SECURITIES INDUSTRY PROFESSIONALS**

1500.1

- (a) Every registered representative, investment representative, partner, director or officer of a Dealer Member shall have in their possession and have read the Conduct and Practices Handbook for Securities Industry Professionals, including any updates:
- (b) Each Dealer Member shall:
  - (i) Take reasonable measures to ensure that all individuals who are employed by such Dealer Member as a registered representative, investment representative, partner, director or officer have in their possession and have read the Conduct and Practices Handbook for Securities Industry Professionals including any updates; and
  - (ii) Bring to the attention and provide all updates of the Conduct and Practices Handbook for Securities Industry Professionals to all registered representatives, investment representatives, partners, directors and officers.
- (c) For the purposes of Rule 1500, having access to an electronic version of the Conduct and Practices Handbook for Securities Industry Professionals shall qualify as having possession of it.

**RULE 1800**

**COMMODITY FUTURES CONTRACTS AND OPTIONS**

.  
.

1800.2

- .  
.
- (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

**ATTACHMENT C**

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

.  
.

.  
.  
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 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;

## ATTACHMENT C

- (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
- (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.

•  
•

**RULE 1900**

**OPTIONS**

•  
•

1900.2

•  
•

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

## ATTACHMENT C

- (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.

•  
•

### 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 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.

## RULE 2500

## MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION

.  
.

**I. Establishing and Maintaining Procedures, Delegation and Education**

.  
.

**F. Records**

1. A Dealer Member must maintain records of supervisory review for seven years.

.  
.

**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

## **ATTACHMENT C**

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 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.
- 
- 
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.

•  
•

•  
•

**V. Option Account Supervision**

•  
•

**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.
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.

•

•  
**VI. Future and Futures Options Account Supervision**

•  
•  
**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.
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.

•  
•  
**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.

## **ATTACHMENT C**

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.

•  
•

## **RULE 2700**

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

#### **Introduction**

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.

•  
•

#### **II. New Account Documentation and Approval**

1. A Dealer Member must complete a new customer account form for each Institutional Customer; and

## ATTACHMENT C

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.

.  
.

### RULE 3200

#### MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER RULE 1300.1(T) FOR SUITABILITY RELIEF FOR TRADES NOT RECOMMENDED BY THE MEMBER

.  
.

#### **A. Minimum requirements for Dealer Members offering solely an order-execution service, either as the Dealer Member's only business or through a separate business unit of the Dealer Member**

.  
.

#### **3. Account Opening**

- (a) At the time an account is opened, the Dealer Member or separate business unit of the Dealer Member must make a written disclosure to the customer advising that the Dealer Member or separate business unit of the Dealer Member will not provide any recommendations to the customer and will not be responsible for making a suitability determination of trades when accepting orders from the customer. Such disclosure shall clearly explain to the customer that the customer alone is responsible for his or her own investment decisions and that the Dealer Member will not consider the customer's financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer.
- (b) At the time an account is opened, the Dealer Member or separate business unit of the Dealer Member must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in Paragraph 3(a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the Dealer Member must obtain an acknowledgement from all beneficial owners.

- (c) Prior to operating any existing accounts under the approval, the Dealer Member or separate business unit of the Dealer Member must provide the disclosure described in Paragraph 3(a) to the customer and obtain the acknowledgement described in Paragraph 3(b).
- (d) The acknowledgements obtained under Paragraphs 3(b) and (c) must take the form of a positive act by the customer(s), a record of which must be maintained by the Dealer Member in an accessible form. Possible forms of the acknowledgement are:
  - (i) The customer's signature or initials on a new customer application form or similar document where the signature or initial specifically relates to the required disclosure and acknowledgement;
  - (ii) The clicking of an appropriately labeled button on an electronic account application form, placed directly under the disclosure and acknowledgement text;
  - (iii) The tape recording of a verbal acknowledgement made by telephone.

.  
.

**B. Minimum requirements for Dealer Members offering both an advisory and an order-execution only service**

**1. Terminology**

All references to the basis of trades in procedures, documents and reports under this Rule must use the terms "recommended" or "non-recommended". In particular, designating trades as solicited or unsolicited will not be accepted as complying with the requirements of this Rule.

.  
.

**3. Account Opening**

- (a) At the time an account is opened, the Dealer Member must make a written disclosure to the customer advising that the Dealer Member will not be responsible for making a suitability determination when accepting an order from the customer which was not recommended by the Dealer Member or a representative of the Dealer Member. Such disclosure shall clearly explain to the customer that the customer alone is responsible for his or her own investment decisions and that the Dealer Member will not consider the customer's financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer. Such disclosure also shall include a brief description of what does or does not constitute a recommendation and instructions on how the customer can

## **ATTACHMENT C**

report trades which have not been accurately designated as recommended or non-recommended.

- (b) At the time an account is opened, the Dealer Member must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in Paragraph 3(a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the Dealer Member must obtain an acknowledgement from all beneficial owners.
- (c) Prior to operating any existing accounts under the approval, the Dealer Member must provide the disclosure described in Paragraph 3(a) to the customer and obtain the acknowledgement described in Paragraph 3(b).
- (d) The acknowledgements obtained under Paragraphs 3(b) and (c) must take the form of a positive act by the customer(s), a record of which must be maintained by the Dealer Member in an accessible form. Possible forms of the acknowledgement are:
  - ii) The customer's signature or initials on a new customer application form or similar document where the signature or initial specifically relates to the required disclosure and acknowledgement;
  - iii) The clicking of an appropriately labeled button on an electronic account application form, placed directly under the disclosure and acknowledgement text;
  - iv) The tape recording of a verbal acknowledgement made by telephone.
- 
-