

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
DEALER MEMBER FINANCIAL AND OPERATIONAL RULES
PLAIN LANGUAGE RULES 4100 THROUGH 4900
PROPOSED AMENDMENTS

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 As part of a project to rewrite IIROC Rules in plain language, the following current rules are repealed and replaced:

Repealed current rule	Proposed plain language rule
New	Rules 4100 and 4200 – General Dealer Member Financial Standards 4101. Introduction (1) Rules 4100 and 4200 set out the following Dealer Member general financial requirements: (i) Minimum capital level and related requirements <i>[Part A, Sections 4110 through 4118];</i> (ii) Early Warning System tests and related requirements <i>[Part B, Sections 4130 through 4138];</i> (iii) Regulatory financial report filing requirements <i>[Part C, Sections 4150 through 4153];</i> (iv) Appointment of auditors and audit requirements <i>[Part D, Sections 4170 through 4192];</i> (v) Financial disclosure to clients <i>[Part E, Sections 4200 through 4207];</i> (vi) General internal control requirements <i>[Part F, Sections 4220 through 4225];</i> (vii) Pricing internal control requirements <i>[Part G, Sections 4240 through 4244];</i> and (viii) Calculation of prices on a yield basis <i>[Part H, Sections 4260 through 4266].</i>
New	4102. - 4109. - Reserved
New	Part A - Minimum capital level and related requirements
New	4110. Introduction (1) Part A of Rule 4100 sets out general Dealer Member

	requirements for: (i) maintaining positive risk adjusted capital; (ii) averting, reporting and remedying capital deficiency situations; (iii) calculating their current capital position; (iv) maintaining and utilizing a capital adequacy reporting system; and (v) consolidating their financial position reporting with related companies.
Rule 17.1	4111. Maintain risk adjusted capital (1) A Dealer Member must at all times maintain risk adjusted capital greater than zero.
Rules 17.1 and 2600, Statement 2 – Procedure (6)	4112. Capital deficiency and early warning situations (1) Senior management of a Dealer Member must take prompt action to: (i) avert or remedy any projected or actual capital deficiency; (ii) report any <i>risk adjusted capital</i> deficiencies to the Corporation; and (iii) report to the Corporation any circumstances that could require the Dealer Member to be designated in early warning Level 1 or Level 2, including circumstances that should be apparent if the Dealer Member had complied with the requirements of this Rule.
Rules 17.1, 200.1(k) and 200.1(m)	4113. Calculating current capital position - general requirements (1) A Dealer Member must calculate risk adjusted capital according to Form 1 and any other requirements the Corporation prescribes. (2) A Dealer Member must know its current capital position by computing it as often as necessary to ensure it has adequate capital at all times. This includes weekly, monthly and annual calculation and documentation.
Rule 2600, Statement 2 – Procedure (5)	4114. Calculating current capital position - weekly documentation (1) At least weekly, but more frequently if required (e.g., the

	Dealer Member is operating close to early warning levels or volatile market conditions exist), the Chief Financial Officer or designate must document that he or she has: (i) received management reports produced by the Dealer Member's accounting system showing information relevant to estimating the Dealer Member's capital position; (ii) obtained other information about items that, while perhaps not yet recorded in the accounting system, are likely to significantly affect the Dealer Member's capital position (e.g., bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements); (iii) estimated the Dealer Member's capital position, compared it to planned capital limits and the prior period, and reported adverse trends or variances to senior management; (iv) estimated the liquidity, capital and, where applicable, profitability tests under the early warning calculations for early warning Level 1 or Level 2 for the Dealer Member.
Rules 200.1(k), 200.1(m) and 2600, Statement 2 – Procedure (7)	4115. Calculating current capital position - monthly documentation and reconciliation (1) A Dealer Member must generate monthly trial balances and capital computations based on its current ledger accounts to: (i) check on status and accuracy of those ledger accounts; and (ii) keep itself informed of its capital position as required under Part A of Rule 4100. (2) The month-end estimate of risk adjusted capital must be reconciled to the MFR. Material discrepancies must be investigated and steps taken to avoid re-occurrence.
Rules 200.1(k), 200.1(m) and 2600, Statement 2 – General and Procedures (2), (3), (4) and (8)	4116. Dealer Member capital adequacy reporting system (1) A Dealer Member must: (i) establish and maintain policies and procedures to ensure that its books and records are timely, complete and accurate; (ii) maintain a capital adequacy reporting system:

Rules 16.02(iv) and
(v)

- (a) based on timely, complete and accurate accounting books and records;
 - (b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (e.g. capital markets, principal trading, borrowing/lending, etc);
 - (c) that includes senior management approved capital usage limits for each functional area designed to ensure that its combined operations maintain adequate intra-day and end of day *risk adjusted capital*; and
 - (d) that identifies and informs functional area management of breaches of approved capital usage limits.
- (iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains positive *risk adjusted capital* as prescribed by Corporation requirements;
 - (iv) identify and implement changes, on an ongoing basis, to its capital adequacy reporting system required to reflect developments in its business or in regulatory requirements; and
 - (v) perform and document, at least annually, a supervisory review of its capital adequacy reporting system.
- (2) A Dealer Member's Chief Financial Officer must continuously monitor the Dealer Member's capital position to ensure that the Dealer Member maintains positive *risk adjusted capital* as prescribed by Corporation requirements.

4117. Consolidation of financial position with related companies

- (1) In calculating its risk adjusted capital a Dealer Member may consolidate its financial position with the financial position of any of its related companies if:
 - (i) the Corporation has given prior approval of the consolidation;
 - (ii) the related company is subject to Corporation requirements;

	(iii) the Dealer Member has guaranteed the obligations of the <i>related company</i> and the <i>related company</i> has guaranteed the obligations of the Dealer Member; (iv) the guarantees are: (a) in a form acceptable to the Corporation; and (b) unlimited in amount; and (v) the consolidation is made according to subsection 4117(2). (2) A Dealer Member consolidating its financial position with a related company under subsection 4117(1) must comply with the following rules or with other requirements acceptable to the Corporation: (i) eliminate inter-company accounts between the Dealer Member and the <i>related company</i>; (ii) eliminate any minority interests in the <i>related company</i> from the capital calculation; and (iii) combine Dealer Member and <i>related company</i> financial information prepared as at the same date.
Rule 200.1(m)	4118. Options for calculating risk adjusted capital available to well-capitalized Dealer Members (1) A Dealer Member, whose capital position is substantially in excess of that required under Corporation requirements, may apply requirements more stringent than the Corporation capital computation requirements and thereby omit certain documentation in support of the computation. For example, when calculating <i>risk adjusted capital</i>: (i) inventories can be grouped into broader margin categories and maximum margin rates applied; (ii) margin requirement reductions for offset positions recognized elsewhere in the Rules can be ignored; and (iii) assets partly allowable or of questionable value can be excluded entirely.
New	4119. - 4129. - Reserved

New	Part B - Early Warning Tests and related requirements						
New							
	4130. Introduction (1) Part B of Rule 4100 describes the early warning system that alerts the <i>Corporation</i> to a <i>Dealer Member's</i> financial or operational problems. It also sets out the process the <i>Corporation</i> follows and the requirements that Dealer Members must comply with to resolve early warning alert situations before they worsen. (2) A <i>Dealer Member</i> has a responsibility to: (i) monitor for an early warning violation; (ii) avoid the potential for an early warning violation; and (iii) report an early warning violation to the <i>Corporation</i> when it occurs.						
Rules 30.1, 30.2 and 30.4	4131. Definitions (1) “Average monthly loss” means the sum of the <i>Dealer Member's</i> monthly profit and loss amounts for a particular period divided by the number of months in the period and the result is a loss. (2) “Early warning excess” and “early warning reserve” have the meanings set out in Statement C of Form 1. (3) “Early warning violation” means the <i>Dealer Member</i> has failed an early warning test. (4) “Loss” means the <i>Dealer Member's</i> loss, if any, before interest on internal subordinated debt, bonuses, income taxes and extraordinary items as set out in Statement E of Form 1. (5) “Risk adjusted capital” and “total margin required” have the meanings set out in Statements B of Form 1.						
Rules 30.2 and 30.4	4132. Early warning designation, levels and tests (1) A <i>Dealer Member</i> is designated as being in early warning level 1 or level 2 if at any time it fails any one of the following tests:<table><tr><th>Early warning tests</th><th>Early warning level 1</th><th>Early warning level 2</th></tr><tr><td>Liquidity test</td><td><i>Dealer Member's</i> early</td><td><i>Dealer Member's</i> early</td></tr></table>	Early warning tests	Early warning level 1	Early warning level 2	Liquidity test	<i>Dealer Member's</i> early	<i>Dealer Member's</i> early
Early warning tests	Early warning level 1	Early warning level 2					
Liquidity test	<i>Dealer Member's</i> early	<i>Dealer Member's</i> early					

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	warning reserve is less than zero.	warning excess is less than zero.
Capital test	<i>Dealer Member's risk adjusted capital</i> is less than 5 per cent of its total margin required.	<i>Dealer Member's risk adjusted capital</i> is less than 2 per cent of its total margin required.
Profitability test #1	<i>Dealer Member's current month risk adjusted capital</i> is less than six times but greater than or equal to three times the absolute value of its <i>average monthly loss</i>, if any, for the six-month period ending with the current month; and <i>Dealer Member's preceding month risk adjusted capital</i> is less than six times the absolute value of its <i>average monthly loss</i>, if any, for the six-month period ending with the preceding month.	<i>Dealer Member's current month risk adjusted capital</i> is less than three times the absolute value of its <i>average monthly loss</i>, if any, for the six-month period ending with the current month; and <i>Dealer Member's preceding month risk adjusted capital</i> is less than six times the absolute value of its <i>average monthly loss</i>, if any, for the six-month period ending with the preceding month.
Profitability test #2	<i>Dealer Member's current month risk adjusted capital</i> is less than six times the absolute value of its <i>loss</i> , if any, for the current month.	<i>Dealer Member's current month risk adjusted capital</i> is less than three times the absolute value of its <i>loss</i> , if any, for the current month.
Profitability test #3	Not applicable	<i>Dealer Member's current month risk adjusted capital</i> is less than the absolute value of its <i>loss</i> , if any, for the three month period ending with the current month.
Frequency	Not applicable	<i>Dealer Member</i> has been designated as being in any early warning, excluding discretionary early warnings, three or more times in the preceding six months; or <i>Dealer Member</i> has failed an early warning level 1 profitability test and at the same time has also failed either an

Rules 30.3 and 30.5

		early warning level 1 liquidity or capital test.
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4133. Early warning related requirements

- (1) When a *Dealer Member* determines that there is an early warning violation:

	Early warning level 1	Early warning level 2
Notifying the Corporation in writing	The <i>Dealer Member's</i> chief executive officer and chief financial officer must immediately deliver a letter to the <i>Corporation</i> detailing: (i) The early warning tests in section 4132 that have been failed; (ii) The identified problems that resulted in the test's failure; (iii) The <i>Dealer Member's</i> proposed plan to rectify the problems identified; and (iv) The <i>Dealer Member's</i> acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the Canadian Investor Protection Fund.	The <i>Dealer Member's</i> chief executive officer and chief financial officer must immediately deliver to the <i>Corporation</i> a letter detailing: (i) The early warning tests in section 4132 that have been failed; (ii) The identified problems that resulted in the tests failure; (iii) The <i>Dealer Member's</i> proposed plan to rectify the problems identified; and (iv) The <i>Dealer Member's</i> acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the Canadian Investor Protection Fund.
Meeting with the Corporation	Not applicable	The <i>Dealer Member's</i> chief executive officer and chief financial officer must meet with the <i>Corporation</i> to present the <i>Dealer Member's</i> plan for rectifying the identified problems.
Taking	<i>A Dealer Member</i> in	<i>A Dealer Member</i> in

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required actions	early warning level 1 must: (i) File its next monthly financial report required under section 4151 within 15 business days of month's end or on any earlier day that the <i>Corporation</i> considers practicable; (ii) Provide any other information that the <i>Corporation</i> requests; and (iii) Follow the business restrictions in section 4135. (iv) File its monthly financial reports within the time specified in subsection (1) above as long as it remains in early warning.	early warning level 2 must: (i) File a weekly capital report with the same information as a monthly financial report within 5 business days of the end of each week or on any earlier day that the <i>Corporation</i> considers practicable; (ii) File a weekly report, in a <i>Corporation</i>-prescribed form, of its aged-segregation deficiencies and an outline of its plan under to correct them; (iii) File a business plan for such period and covering such matters as the <i>Corporation</i> specifies; (iv) File its next monthly financial report required under section 4151 by the 10th business day after the end of each month or any earlier day that the <i>Corporation</i> considers practicable; (v) Provide any other information that the <i>Corporation</i> requests; and (vi) Follow the business restrictions in section 4135.
Responding to the Corporation's letter	The Corporation will send a letter to a Dealer Member in early warning level 1 confirming that the	The <i>Corporation</i> will send a letter to a <i>Dealer Member</i> in early warning level 2 confirming that the

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	Dealer Member is in early warning level 1 and requesting information from the Dealer Member. A Dealer Member will respond to the Corporation's early warning letter within 5 business days: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the Dealer Member's early warning situation if any material circumstances have changed. The Dealer Member must send copies of its response letter to its auditor and the Canadian Investor Protection Fund.	Dealer Member is in early warning level 2 and requesting information from the Dealer Member. A Dealer Member will respond to the Corporation's early warning letter within 5 business days: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the Dealer Member's early warning situation if any material circumstances have changed. The Dealer Member must send copies of its response letter to its auditor and the Canadian Investor Protection Fund.
On-site reviewing of the Dealer Member's procedures	The Corporation will as soon as practicable: (i) conduct an on-site review of the Dealer Member's procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	The Corporation will as soon as practicable: (i) conduct an on-site review of the Dealer Member's procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.
Reimbursing the Corporation for costs	The Corporation may require a Dealer Member to pay reasonable costs and expenses incurred to administer the Dealer Member's early warning situation under this Rule.	The Corporation may require a Dealer Member to pay reasonable costs and expenses incurred to administer the Dealer Member's early warning situation under this Rule.

Rules 30.2 and 30.4

4134. Discretion to designate a Dealer Member as being in early warning

- (1) The *Corporation* may designate a *Dealer Member* as being in early warning level 1 or 2 if at any time the condition of the *Dealer Member* is not satisfactory for any reason including:
- (i) financial or operating difficulties;
 - (ii) problems arising from record-keeping conversion or significant changes in clearing methods;
 - (iii) issues related to being a new *Dealer Member*; or
 - (iv) lateness in any filing or reporting required by the *Corporation*.

Rule 30.3(iv)

4135. Restrictions on a Dealer Member in early warning

- (1) A *Dealer Member* in early warning must comply with all the *Corporation* directions. It must also obtain the *Corporation's* written consent before:
- (i) reducing its capital in any way, including by share redemption, re-purchase or cancellation;
 - (ii) reducing any of its *Corporation*-approved subordinated indebtedness;
 - (iii) incurring any direct or indirect loan, advance, bonus, dividend, capital or other payments or distributions of assets to any director, officer, partner, shareholder, related company, affiliate or associate; or
 - (iv) incurring any commitments to increase its non-allowable assets.

Rules 30.5(j) and 30.6

4136. Additional Restrictions

- (1) The *Corporation* may impose any of the following additional restrictions on a *Dealer Member* in early warning:

Early warning level 1	Early warning level 2
None	(i) Reducing the amount of clients' free credit balances that the <i>Dealer Member</i> or its carrying broker may use under to an amount the <i>Corporation</i> considers desirable. (ii) Imposing restrictions on a

			Dealer Member that is designated in early warning level 2 under Rule 20, Part 9, Early Warning Review Proceedings.
Rule 30.3	4137. Prohibited transactions (1) A <i>Dealer Member</i> must not enter into any transaction or take any action described in section 4135 that would cause the <i>Dealer Member</i> to be in early warning unless it first notifies the <i>Corporation</i> in writing of its intention to do so and receives the <i>Corporation's</i> written approval.		
Rule 30.8	4138. Lifting an early warning designation (1) A <i>Dealer Member</i> will remain designated as being in early warning level 1 or 2 until the <i>Corporation</i> confirms in writing that the early warning designation has been lifted. The <i>Corporation</i> will lift the early warning designation when the <i>Dealer Member</i> files a monthly financial report, or submits such other evidence or assurances, that satisfies the <i>Corporation</i> that the <i>Dealer Member</i> has solved the problems that placed it in early warning.		
New	4139. -4149. - Reserved		
New	Part C – Regulatory financial report filing requirements		
New	4150. Introduction (1) Part C of Rule 4100 sets out a <i>Dealer Member's</i> financial reporting obligations. Financial reporting enables the <i>Corporation</i> to monitor a <i>Dealer Member's</i> financial position and compliance with capital requirements, as well as to receive early warning of any deterioration in that position.		
Rule 16.2	4151. Dealer Member financial filings [LINK GN 4150-1] (1) A <i>Dealer Member</i> must file: (i) an audited <i>Form 1</i> for its fiscal year; and (ii) a monthly financial report (MFR) for each calendar month, [LINK Form 1], in accordance with <i>Corporation</i> requirements. [LINK Instructions 4150-1]		

Rule 16.2(iii)	4152. Extending deadline for financial filings (1) A <i>Dealer Member</i> may request an extension of time for filing its MFR by writing to the <i>Corporation</i>. (2) A <i>Dealer Member's</i> auditor may request an extension of time for filing the <i>Dealer Member's</i> annual <i>Form 1</i> by writing to the <i>Corporation</i>. (3) The <i>Corporation</i> may grant an extension under subsections 4152(1) and (2) if it considers the request to be appropriate in the circumstances.
Rule 16.10	4153. Late filing fee (1) A <i>Dealer Member</i> must pay a fee [LINK Instructions 4150-1] to the <i>Corporation</i> if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by the <i>Corporation</i>.
New	4154. - 4159. - Reserved
New	Part D – Appointment of auditors and audit requirements
New	4170. Introduction (1) Part D of Rule 4100 sets out the minimum requirements for the appointment of auditors and for the conducting of audits. The audit requirements ensure that auditors test for specific financial and regulatory compliance issues and report any breaches of rules or standards to the <i>Corporation</i>.
Rule 16.1	4171. Approved auditors (1) The <i>Corporation</i> annually approves, based on adopted criteria [LINK Criteria for Panel Auditors], a list of audit firms as panel auditors eligible to perform a <i>Dealer Member's</i> annual audit. (2) The <i>Corporation</i> may remove an audit firm from the approved list if the audit firm no longer meets the criteria in subsection (1).
Rule 16.1	4172. Dealer Member's auditor (1) A <i>Dealer Member</i> must use a <i>Corporation</i>-approved auditor.
Rule 16.5 (Remainder of 1 st sentence)	4173. Responsibilities of a Dealer Member's auditor

	(1) The <i>Dealer Member's</i> auditor must: (i) conduct an audit of the <i>Dealer Member's</i> annual <i>Form 1</i> filing; and (ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the <i>Dealer Member's</i> annual <i>Form 1</i> filing.
Rule 300.2 (End of 1 st sentence)	4174. No limitation on scope or procedures (1) Nothing in this Rule: (i) limits the scope of the audit, or (ii) allows the <i>Dealer Member's</i> auditor to omit any additional audit procedure that it considers necessary under the circumstances.
Rules 16.5, 300.1 and 300.2 (2 nd paragraph after {ii})	4175. Audit in accordance with Canadian Auditing Standards (CAS) (1) The <i>Dealer Member's</i> auditor must audit the <i>Dealer Member</i> in accordance with Canadian Auditing Standards (CAS). (2) Although conducted in accordance with CAS, a <i>Dealer Member's</i> substantive audit procedures must be done as at the audit date because of the nature of the securities industry. (3) A <i>Dealer Member's</i> <i>risk adjusted capital</i> (RAC) and early warning reserve (EWR) must be considered when determining materiality for the <i>Dealer Member's</i> audit.
Rule 300.2 (Paragraph after {ii})	4176. Test procedures as at the fiscal year-end date (1) The <i>Dealer Member's</i> auditor must conduct the test procedures in sections 4177 through 4185 as at the audit date.
Rule 300.2(a)(ii)	4177. Account for all securities, currencies, and other like assets (1) The <i>Dealer Member's</i> auditor must account for all securities, currencies and other like assets, including those held in safekeeping or in segregation, on hand, in a vault, or otherwise in the <i>Dealer Member's</i> physical possession. (2) The <i>Dealer Member's</i> auditor must physically examine the assets and compare them with the <i>Dealer Member's</i> books

	and records. [LINK: Form 1, General Notes and Definitions, Note #10] (3) If a <i>Dealer Member</i> has employees who are independent of its employees who handle or record securities, those independent employees may conduct all or part of the count and examination under the observation of the <i>Dealer Member's</i> auditor. (4) The <i>Dealer Member's</i> auditor must test count and compare sufficient securities with the independent employees' counts, if applicable, and with the security position records, to be satisfied that the entire count was substantially correct.
Rules 300.2(a)(ii) and (iii)	4178. Verify securities in transfer and in transit (1) On a test basis, the <i>Dealer Member's</i> auditor must verify securities in transfer and in transit between the <i>Dealer Member's</i> offices.
Rule 300.2(a)(iv)	4179. Review the Dealer Member's position balancing and account reconciliations (1) The <i>Dealer Member's</i> auditor must review: (i) the <i>Dealer Member's</i> balancing of all security positions and all derivatives; and (ii) the <i>Dealer Member's</i> reconciliation of all broker, dealer, clearing account positions, and non-certificated instrument (NCI) positions the <i>Dealer Member</i> holds (in inventory and for clients) with the counterparty's corresponding statements. (2) If a position or account is not in balance according to the records (after adjusting to the physical count): (i) the <i>Dealer Member's</i> auditor must find out whether the <i>Dealer Member</i> has adequately provided for any potential loss; and (ii) the <i>Dealer Member</i> must make that provision according to the Notes and Instructions for out-of-balance positions in Statement B of <i>Form 1</i>. [LINK Form 1, Statement B, Instructions for Line 20]

Rule 300.2(a)(v)	4180. Review bank reconciliations (1) The <i>Dealer Member's</i> auditor must: (i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the <i>Dealer Member's</i> banks which cover a period ending at least 10 business days after the audit date; and (ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts, on a test basis, using appropriate audit procedures.
Rule 300.2(a)(vi)	4181. Review custodial agreements and approvals (1) The <i>Dealer Member's</i> auditor must: (i) ensure that all custodial agreements in the form prescribed by the <i>Corporation</i> [LINK: Guidance Note 4340-2, Appendices 1, 2 and 3], are in place [LINK: Form 1, General Notes and Definitions, Note #13] for securities lodged with <i>acceptable securities locations</i> [LINK: Form 1, General Notes and Definitions, Definition of "acceptable securities locations"]; and (2) annually obtain evidence of a <i>Dealer Member's</i> Board of Directors' or authorized Board committee's approval of <i>other foreign securities locations</i> [LINK: Form 1, General Notes and Definitions, Definition of "acceptable securities locations"]. These approvals must be documented in the meeting minutes.
Rule 300.2(a)(vii)(1-9)	4182. Obtain written positive confirmations (1) The <i>Dealer Member's auditor</i> must obtain written positive confirmation of: (i) all bank balances and other deposits including hypothecated securities; (ii) all money, security positions, and derivative positions, including with clearing houses, similar organizations, and issuers of non-certificated instruments; (iii) all money and securities loaned or borrowed (including subordinated loans) and details of collateral received or pledged, if any;

	(iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and security positions and derivative positions; [LINK: Form 1, General Notes and Definitions, Note #11] (v) all accounts of directors and officers or partners, including money and security positions and derivative positions; (vi) a sample of client, employee, and shareholder accounts, including money and security positions and derivative positions; (vii) a sample of account guarantee agreements, in cases where a margin reduction has been taken in the accounts for which the guarantee has been provided during the period subject to the audit; [LINK: Form 1, General Notes and Definitions, Note #12]; (viii) a sample of guarantees, in cases where a margin reduction has been taken in the accounts for which the guarantee has been provided as at the audit date; [LINK: Form 1, General Notes and Definitions, Note #12]; and (ix) all other accounts which, in the opinion of the <i>Dealer Member's</i> auditor, should be confirmed.
Rule 300.2(a)(vii) (last sentence)	4183. Review a sample of signed guarantee agreements (1) The <i>Dealer Member's</i> auditor must review a sample of the <i>Dealer Member's</i> guarantee agreements to ensure they are signed, completed, and comply with the minimum requirements set out in sections 5120 through 5125. [LINK: Rule 5120].
Rule 300.2(a)(viii)	4184. Tests and procedures on statements and schedules of Form 1 (1) The additional information set out in Part II of <i>Form 1</i> should be subjected to the procedures in the audit of Part I of <i>Form 1</i>, which are in accordance with Canadian Auditing Standards. No procedures are required to be carried out in addition to those necessary to form an opinion on Part I of <i>Form 1</i>.

Rule 300.2(b)	4185. Test statements for a description of securities held in safekeeping (1) The <i>Dealer Member's</i> auditor must check on a test basis whether the <i>Dealer Member's</i> security position record and client statements accurately describe securities held in safekeeping.
Rules 16.6 and 300.2(a)(ix)	4186. Dealer Member obligations to auditor (1) A <i>Dealer Member</i> must fully disclose all material facts and issues about its business and operations in a representation letter from the <i>Dealer Member's</i> senior officers to the <i>Dealer Member's</i> auditor. (2) A <i>Dealer Member</i> must provide its auditor with unrestricted access to all of the <i>Dealer Member's</i> books and records and related documents. (3) A <i>Dealer Member</i> must not interfere with the audit process, nor conceal, withhold, or destroy any information, document or records reasonably required for the audit.
Rule 300.2(a)(vii)(3 rd and 4 th sentences)	4187. Selection of accounts for positive confirmation (1) For accounts in clauses 4182(1)(iv), (vi), (vii), and (viii) the <i>Dealer Member's</i> auditor must: (i) select specific accounts for positive confirmation based on: (a) size (all accounts with equity exceeding a certain dollar value, based on the level of materiality); and (b) other characteristics such as accounts in dispute, accounts that are significantly undermargined, nominee accounts, and accounts that would require significant margin during the year or as at year-end without an effective guarantee; and (ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected.

Rule 300.2(a)(vii)(5th sentence following {9})

4188. Written confirmation of clients' accounts with no balance

- (1) The *Dealer Member's* auditor must, using positive or negative written confirmation procedures, confirm on a test basis clients' accounts with no balance and those closed since the last fiscal year-end audit date. The *Dealer Member's* auditor may consider the adequacy of the *Dealer Member's* internal control system to decide the extent of these procedures.

Rule 300.2(a)(vii)(6th and 7th sentences following {9})

4189. Effect on capital if no positive written confirmation received for a guarantee

- (1) If the *Dealer Member's* auditor does not receive a reply to a positive account guarantee agreement confirmation request made under clause 4182(1)(vii) or (viii), the guarantee agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:

[LINK Form 1, General Notes and Definitions, #12, p. 2 – re: guarantees disallowed]

 - (i) the *Dealer Member's* auditor (or the *Dealer Member*, if after the *Form 1* filing) receives positive written confirmation of the account guarantee agreement; or
 - (ii) the parties sign a new account guarantee agreement. [LINK Rule 5124(3)]
- (2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the guarantee, that guarantee must not be accepted for margin reduction purposes until:
 - (i) the dispute is resolved; and
 - (ii) the guarantor provides an acceptable form of confirmation of the account guarantee agreement.

Rules 300.2(c) and 300.3(a)

4190. Calculations for Form 1 and other reporting

- (1) The *Dealer Member's* auditor must perform the procedures identified in the Report on Compliance for Segregation of Securities in *Form 1* and report on the results as at the fiscal year-end audit date.
- (2) The *Dealer Member's* auditor must perform the procedures identified in the Report on Compliance for

Rule 300.5	Insurance in <i>Form 1</i> and report on the results as at the fiscal year-end audit date. 4191. Auditor's records (1) The <i>Dealer Member's</i> auditor must retain a final copy of <i>Form 1</i> and all audit working papers in accordance with section V(5) [LINK Introduction Section V(5)] of the Introduction to the Rulebook. (2) All audit working papers for the two most recent years must be readily accessible. (3) The <i>Dealer Member's</i> auditor must make all working papers available for review by the <i>Corporation</i> and the Canadian Investor Protection Fund (CIPF).
Rule 300.6	4192. Reporting a material breach of Corporation requirements (1) If during the regular conduct of an audit, the <i>Dealer Member's</i> auditor observes any material breach of the <i>Corporation</i> requirements related to: (i) calculating the <i>Dealer Member's</i> financial position, (ii) handling and custody of securities, or (iii) maintaining adequate records, the <i>Dealer Member's</i> auditor must report that breach to the <i>Corporation</i>.
New	4193. - 4199. - Reserved
New New Rule 1400.1 (1st sentence)	Part E - Financial disclosure to clients 4200. Introduction (1) If a client so requests, a Dealer Member must disclose its financial condition to the client to enable them to assess the Dealer Member's financial condition. Part E of Rule 4200 sets out the requirements that a Dealer Member must meet in order to present this information to the client in a complete and consistent manner. 4201. Statement of financial condition available (1) A Dealer Member must provide a statement of its financial condition, when requested, to any client who has traded in his or her account within the past 12 months.

Rule 1400.3	(2) The statement of financial condition must be as at the Dealer Member's latest fiscal year-end date and based on its latest annual audited financial statements. (3) A Dealer Member must prepare the statement of financial condition within 75 days of its fiscal year-end.
Rules 1400.1 and 1400.4 (opening paragraph), (a) and (b)	4202. Statement of financial condition - contents (1) A Dealer Member's statement of financial condition must contain material information including assets, liabilities and shareholders' or partners' equity. 4203. Consolidated financial statements - similar named entity (1) A Dealer Member must disclose its financial statements separately from those of any affiliate or holding company with a similar name. (2) If a Dealer Member's accounts are included in the consolidated financial statements of its holding company or affiliate with a name similar to the Dealer Member's, and those consolidated financial statements are published or circulated in any <i>document</i>, then either: (i) the consolidated financial statements must include a note indicating that: (a) they relate to an entity that is not the Dealer Member, and (b) although the statements include the Dealer Member's accounts, they are not the Dealer Member's financial statements. - or (ii) at the time of publication or circulation, the Dealer Member must send to each client who has traded in his or her account within 12 months of the date of publication: (a) its unconsolidated statement of financial condition, and (b) a letter explaining why the statement is being sent.
Rules 17.1 and 1400.5	4204. Dealer Member's auditor's report (1) A Dealer Member may publish or circulate a financial statement only if:

	(i) its auditor's report accompanies the statement; and (ii) the auditor's report states that the financial statement fairly summarizes the Dealer Member's financial position. (2) The Dealer Member's auditor's report that accompanies its financial statement must state that the statement fairly summarizes the Dealer Member's financial position.
1400.2	4205. Publishing a statement of financial condition (1) If a Dealer Member publishes or circulates a financial statement in any <i>document</i>, it must: (i) be in the same form; and (ii) contain the same information as the statement made available to the Dealer Member's clients.
1400.6	4206. List of current executives and directors (1) A Dealer Member must provide a current list of its executives and directors, when requested, to any client who has traded in his or her account within the past 12 months.
1400.7	4207. Statement of financial condition available to clients (1) A Dealer Member must state on each account statement sent to clients, or in another manner the Corporation approves, that: (i) its statement of financial condition; and (ii) list of executives and directors are available on request to any client who has traded in his or her account within the previous 12 months.
New	4208. - 4219. - Reserved
New	Part F – General internal control requirements
New	4220. Introduction (1) Part F of Rule 4200 sets out Corporation requirements for a Dealer Member's <i>internal controls and risk management infrastructure</i>. Effective internal controls will assist a Dealer Member not only in complying with Corporation requirements and applicable securities law but also in conducting its business with integrity and due regard to

	the interests of its clients.
Rule 2600, Statement 1 – General Matters (iv)	4221. Definitions (1) “<i>Detective controls</i>” means controls that discover, or increase the chances of finding, fraud or error, so the Dealer Member can take prompt corrective action. Even knowing that detective controls exist may have a deterrent effect and be preventive in that sense. (2) “<i>Preventive controls</i>” mean controls that prevent, or minimize the chances of, fraud and error.
Rules 17.2(A) and 2600, Statement 1 – General Matters (2 nd paragraph, 2 nd sentence) and (v)	4222. Adequate internal controls (1) A Dealer Member must establish and maintain appropriate <i>internal controls</i>. (2) A Dealer Member’s management is responsible for ensuring adequate <i>internal controls</i> as part of its overall responsibility for the Dealer Member’s operations. (3) A Dealer Member’s management must use best judgment in determining whether <i>internal controls</i> are adequate.
Rule 2600, Statement 1 – General Matters (iv)(1 st sentence)	4223. Preventive controls (1) When necessary, a Dealer Member must implement <i>preventive controls</i> based on management’s view of the risk of loss and the cost-benefit relationship of controlling that risk.
Rule 2600, Statement 1 – General Matters [2 nd paragraph after (iv)(1 st sentence)]	4224. Written record (1) A Dealer Member must maintain a detailed written record of its <i>internal controls</i>, including, at a minimum, the policies and procedures senior management has approved to comply with this Rule and related Corporation internal control requirements.
Rule 2600, Statement 1 – General Matters [2 nd paragraph after (v)(iv)(2 nd sentence)]	4225. Review and written approval of internal controls (1) Senior management must review a Dealer Member’s <i>internal controls</i> for adequacy and suitability at least annually and more frequently as necessary or stipulated by Corporation <i>requirements</i>. Senior management must approve a Dealer Member’s <i>internal controls</i> in writing after each review.

New	4226. - 4239. - Reserved
New	Part G - Pricing internal control requirements
New	4240. Introduction (1) Part G of Rule 4200 sets internal control requirements to so that a Dealer Member can ensure that securities are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used. 4241. Pricing procedures (1) A Dealer Member must consistently and accurately price all securities. In Part G of Rule 4200, references to securities include client and inventory securities, securities used in financing transactions such as security borrow and lend, repurchase and reverse repurchase transactions. (2) On a daily basis, a Dealer Member must consistently and accurately mark to market its “owned” and “sold short” security positions to ensure accurate profit and loss reporting in accordance with Corporation rules. (3) A Dealer Member must develop, document, and follow policies and procedures in consistently pricing and verifying prices of securities. (4) A Dealer Member’s policies and procedures must ensure appropriate pricing in security records that it uses to prepare management reports for monitoring: (i) securities-inventory profit and loss; (ii) its regulatory capital position; and (iii) security segregation. (5) A Dealer Member must assign knowledgeable personnel, who are independent of its trading functions, to prepare the reports in subsection (4), and must supervise the reports’ preparation. Conflicted personnel must not be involved in security pricing or, failing that, the Dealer Member must adopt compensating procedures to ensure appropriate pricing.
Rule 2600, Statement 7 – Control objectives (c) and (d) and minimum required firm policies and procedures (2), (3), (7) and (8)	
Rule 2600, Statement 7 – Control	4242. Independent price verification and adjustment (1) A Dealer Member must independently verify its security

objectives (a) and minimum required firm policies and procedures (1) and (5)(2 nd sentence)	prices at each month-end by comparing them with alternative third-party pricing sources. (2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences). (3) Senior management must: (i) On a monthly basis, approve the resolution of all material differences; and (ii) On an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.
Rule 2600, Statement 7 – Minimum required firm policies and procedures (6)	4243. Retention of supporting documents (1) A Dealer Member must retain supporting documents to show that it has verified securities pricing and made appropriate adjustments.
Rule 2600, Statement 7 – Minimum required firm policies and procedures (4)	4244. Access to records (1) Dealer Member personnel involved in securities trading must not have access to back-office security-price records.
New	4245. - 4259. - Reserved
New	Part H - Calculation of prices on a yield basis
New	4260. Introduction (1) Part H of Rule 4200 describes how to calculate a security price based on a security's current market yield.
Rule 1100.1 (1 st paragraph)	4261. Calculating price if no method is stated for calculating unexpired term (1) When a Dealer Member quotes a bid or offer based on yield, and neither the buyer nor seller Dealer Member states a price or a method for calculating the unexpired term, the price must be established according to sections 4262 through 4266.
Rule 1100.1(a)	4262. Bonds with unexpired terms to maturity up to and including ten years (1) For a bond with an unexpired term to maturity up to and

	including 10 years, calculate the unexpired term as the exact period in years, months, and days: (i) from the regular delivery date to the maturity date of a non-callable bond or callable bond selling at less than the call price, and (ii) to the first redemption date of a callable bond selling at, or at a premium over, the call price. (2) In calculating the price for the term, one day is 1/30th of one month.
Rule 1100.1(b)	4263. Bonds with unexpired terms to maturity over ten years (1) For a bond with an unexpired term to maturity of over 10 years, calculate the unexpired term as the period in years and months: (i) from the month in which the regular delivery date occurs to the month and year of maturity of a non-callable bond or callable bond selling at less than the call price; and (ii) to the first month and year that the bond is redeemable for a callable bond selling at, or at a premium over, the call price.
Rule 1100.1(c)	4264. Price precision (1) For all bond transactions between Dealer Members and their clients where the price has been determined using the calculation approach set out in either section 4262 or 4263, the price must be extended to three decimal places of precision.
Rule 1100.1(d)	4265. New Issues (1) Part H of Rule 4200 applies to new issues, and the unexpired term starts on the date up to which accrued interest is charged to the client.
Rule 1100.2	4266. Exceptions (1) Sections 4262 through 4265 do not apply to trades in: (i) Government of Canada bonds and guaranteed bonds; (ii) Short-term securities that have: (a) an unexpired term to maturity of six months or less;

ATTACHMENT A

	(b) an unexpired term-to-call date of six months or less and selling at, or at a premium over, the call price; or (c) been called for redemption; (iii) securities callable on future dates at varying prices; and (iv) securities callable at the issuer's option if the call date is not stated and the securities are selling at a premium over call price.
New	4267. - 4299. - Reserved

Repealed current rule	Proposed plain language rule
New	Rules 4300 and 4400 – Protection of Client Assets 4301. Introduction (1) Rules 4300 and 4400 set out the following Dealer Member requirements relating to the protection of client assets: (i) Segregation and related internal control requirements including: (a) General segregation requirements <i>[Part A.1, Sections 4310 through 4314];</i> (b) Bulk segregation calculation <i>[Part A.2, Sections 4315 through 4319];</i> (c) Security usage restrictions and correcting segregation deficiencies <i>[Part A.3, Sections 4320 through 4326];</i> and (d) Minimum segregation policies and procedures <i>[Part A.4, Sections 4327 through 4331].</i> (ii) Custody and related internal control requirements including: (a) General custody requirements <i>[Part B.1, Sections 4340 through 4342];</i> (b) Acceptable securities locations <i>[Part B.2, Sections 4343 through 4351];</i> (c) Written custodial agreement requirement <i>[Part B.3, Sections 4352 and 4353];</i> (d) Confirmation and reconciliation requirements <i>[Part B.4, Sections 4354 through 4360];</i> and (e) Margin requirements <i>[Part B.5, Sections 4361 through 4367].</i> (iii) Client free credit balance requirements <i>[Part C, Sections 4380 through 4386];</i> (iv) Safekeeping requirements <i>[Part D, Sections 4400 through 4405];</i> (v) Internal controls requirements for safeguarding cash and securities <i>[Part E, Sections 4420 through 4433];</i> and

	(vi) Insurance requirements [Part F, Sections 4450 through 4465].
New	4302. - 4309. - Reserved
New	Part A - Segregation and related internal control requirements
New	Part A.1 - General segregation requirements
New	4310. Introduction (1) A <i>Dealer Member</i> is required to segregate client fully paid and excess margin securities. Any segregation deficiencies must be resolved promptly, as provided in Part A.1 of Rule 4300, and, if material, reported to senior management.
Rules 2000.4(b) and (c)	4311. Definitions (1) In Part A of Rule 4300: (i) “ <i>net loan value of a security</i> ” means, for: (a) a long position, the market value of the security less any margin required; (b) a short position, the market value of the security plus any margin required expressed as a negative number; and (c) a short security option position, any margin required as a negative number. (ii) “ <i>qualifying hedge position</i> ” means, for all the accounts of each client: (a) a long position in a security; and (b) a short position in a security issued or guaranteed by the same issuer of the security in (a); where: (c) the long position is convertible to or exchangeable for securities of the same class and number of the securities held in the short position; and (d) the <i>Dealer Member</i> is using the long position as collateral to cover the short position.

Rules 17.3, 17.3B and 2600, Statement 4 – Control Objective (b)	4312. Fully paid and excess margin securities (1) A <i>Dealer Member</i> holding fully paid or excess margin securities for a client must: (i) segregate those securities; and (ii) identify those securities as being held in trust for that client. (2) A <i>Dealer Member</i> must not use securities held in segregation for its own purposes except with the express written approval of its client under the terms of a cash and securities loan agreement as detailed in Part B of Rule 4600. (3) The <i>Corporation</i> may prescribe how <i>segregated securities</i> are held, and how the amount or value of securities to be segregated must be calculated.
Rule 2000.3	4313. Restricted and non-negotiable securities (1) Securities that are restricted, non-negotiable, or that cannot be made fully negotiable solely by signature or guarantee of the <i>Dealer Member</i> are deemed not to be segregated, unless such securities are registered in the name of the client (or name of a person required by the client) on whose behalf they are being held in an <i>acceptable segregation location</i>.
Rule 17.3A	4314. Segregation of client securities (1) A <i>Dealer Member</i> holding <i>segregated securities</i> must: (i) segregate those securities in bulk in accordance with sections 4315 through 4319; or (ii) segregate specific securities for each client. (2) A <i>Dealer Member</i> must not segregate in bulk client securities that are subject to a written safekeeping agreement.
New	Part A.2 - Bulk segregation calculation
New	4315. Steps for bulk segregation calculation (1) A <i>Dealer Member</i> that segregates securities in bulk must, in accordance with sections 4316 through 4319: (i) determine the <i>net loan value</i> and <i>market value</i> of securities held in a client's account;

Rule 2000.4(a)

- (ii) calculate the number of *segregated securities* to be segregated in bulk;
- (iii) determine the securities to use to satisfy segregation requirements; and
- (iv) perform regular calculations and compliance reviews.

4316. Net loan value and market value of securities in a client's account

- (1) A *Dealer Member* holding *segregated securities* in bulk segregation must determine for all securities held for all accounts of each client:
 - (i) the number of securities that are part of a *qualifying hedge position*;
 - (ii) the *net loan value* of securities (excluding securities that are part of a *qualifying hedge position*) less the aggregate debit cash balance in accounts (or plus in the case of a credit); and
 - (iii) the market value of securities (excluding securities that are part of a *qualifying hedge position*) not eligible for margin less the aggregate amount, if any, by which those accounts are under-margined as calculated in clause (ii). [LINK - Form 1, General Notes and Definitions, (f) "market value".]
- (2) A *Dealer Member* must segregate the *net loan value* of securities calculated in clause 4316(1)(ii) and the *market value* of securities calculated in clause 4316(1)(iii) for each client account.
- (3) A *Dealer Member* is not required to segregate an amount of securities greater than the market value of the securities held for those accounts.

Rule 2000.5, 1st sentence and (a) and (b)

4317. Calculating the number of client securities to be segregated in bulk

- (1) A *Dealer Member* that chooses to satisfy its segregation obligations under section 4312 by segregating in bulk must segregate in bulk for all its clients the number of securities calculated as follows:
 - (i) Equities

Number of securities	=	aggregate loan value + <i>market value</i> of a class or series of security
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	<table><tr><td>required to be segregated</td><td>required to be segregated for each client in section 4316 ÷ loan or market value of one unit of the security</td></tr></table>	required to be segregated	required to be segregated for each client in section 4316 ÷ loan or market value of one unit of the security	
required to be segregated	required to be segregated for each client in section 4316 ÷ loan or market value of one unit of the security			
	(ii) Debt securities			
	<table><tr><td>Principal amount of securities required to be segregated</td><td>=</td><td>aggregate loan value + <i>market value</i> of a class or series of security required to be segregated for each client in section 4316 ÷ loan or market value of each \$100 principal amount of the security x 100, rounded to lowest issuable denomination</td></tr></table>	Principal amount of securities required to be segregated	=	aggregate loan value + <i>market value</i> of a class or series of security required to be segregated for each client in section 4316 ÷ loan or market value of each \$100 principal amount of the security x 100, rounded to lowest issuable denomination
Principal amount of securities required to be segregated	=	aggregate loan value + <i>market value</i> of a class or series of security required to be segregated for each client in section 4316 ÷ loan or market value of each \$100 principal amount of the security x 100, rounded to lowest issuable denomination		
Rule 2000.5, paragraphs after (b)	4318. Determining securities to satisfy segregation requirements (1) A <i>Dealer Member</i> may choose any securities from a client’s accounts to satisfy the segregation requirements for that client’s positions, subject to the restrictions of any applicable securities legislation including, without limitation, a requirement that fully-paid securities in a cash account be segregated before unpaid securities. (2) A <i>Dealer Member</i> that sells securities required to be segregated for a client must keep them segregated until one business day prior to settlement or value date. (3) Securities required to be segregated for a client must not be removed from segregation as a result of the purchase of any securities by that client until settlement or value date.			
Rules 2000.6 and 2000.7	4319. Frequency and review of bulk segregation calculation (1) At least twice weekly, a <i>Dealer Member</i> must determine the securities required to be segregated according to the calculations in this section. (2) A <i>Dealer Member</i> must conduct a daily review of securities segregated for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with 4319(1), required to be segregated. Where a deficiency exists, the Dealer Member must correct it in accordance with the requirements of sections 4320 through 4326.			

New	Part A.3 - Security usage restrictions and correcting segregation deficiencies
Rules 2000.8(a) and (b)	4320. General restrictions (1) A <i>Dealer Member</i> must: (i) ensure that a segregation deficiency is not knowingly created or increased; (ii) not deliver securities it holds against payment for the account of any client if those securities are required to satisfy the <i>Dealer Member's</i> segregation requirements.
Rules 2000.9, 1 st paragraph and 2600, Statement 4 – Minimum required firm policies and procedures (6) and (8)	4321. Correcting segregation deficiencies (1) If any segregation deficiency exists, or if a <i>Dealer Member</i> identifies any segregation deficiency in a supervisory review, the <i>Dealer Member</i> must promptly take the most appropriate action necessary to correct the deficiency. (2) Common deficiencies and appropriate remedial actions include, but are not limited to, those in sections 4322 through 4326.
Rule 2000.9, 2 nd paragraph	4322. Call loan segregation deficiency (1) A <i>Dealer Member</i> that determines it has a call loan segregation deficiency must recall the securities within the business day following the day it determines the deficiency exists.
Rule 2000.9, 3 rd paragraph	4323. Securities loan segregation deficiency (1) A <i>Dealer Member</i> that determines it has a securities loan segregation deficiency must: (i) recall the securities from the borrower within the business day following the day it determines the deficiency exists; or (ii) borrow the same issue of securities to cover the deficiency. (2) If the <i>Dealer Member</i> has not received the securities within five business days following the date it determines the deficiency, it must undertake to buy-in the borrower.

Rule 2000.9, 4 th paragraph	4324. Inventory or trading account short position segregation deficiency (1) A <i>Dealer Member</i> that determines it has an inventory or trading account short position segregation deficiency must: (i) borrow the same issue of securities to cover the deficiency within the business day following the day it determines the deficiency exists; or (ii) undertake to purchase the same issue of securities immediately.
Rule 2000.9, 5 th paragraph	4325. Client declared short sales segregation deficiency (1) A <i>Dealer Member</i> that determines it has a client declared short sale segregation deficiency must: (i) borrow the same issue of securities to cover the deficiency within the business day following; or (ii) undertake to buy-in the same issue of securities within five business days of, the day it determines the deficiency exists.
Rule 2000.9, 6 th paragraph	4326. Fails – client or other Dealer Member (1) If a <i>Dealer Member</i> has failed to receive securities within 15 business days of settlement date from a client or another <i>Dealer Member</i>, the <i>Dealer Member</i> must: (i) borrow the same issue of securities to cover the deficiency; or (ii) undertake to buy-in the securities.
New	Part A.4 - Minimum segregation policies and procedures
New	4327. General (1) A <i>Dealer Member</i> must, at a minimum, comply with the policies and procedures for <i>segregated securities</i> in sections 4328 through 4331 and the supervision requirements in Rule 3900, Dealer Member’s Supervisory Obligations.
Rule 1.1, “Segregated Securities”	4328. Records of segregated securities (1) Segregated <i>securities</i> must be described as being held in segregation on a <i>Dealer Member’s</i> security position record (or related records) and client ledger and statement of

	account. This description must be in substance a fair representation of how the securities are being held in segregation at the custodian and therefore, the security box locations of the <i>Dealer Member</i> must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the <i>Dealer Member</i>.
Rule 2600, Statement 4 – Minimum required firm policies and procedures (1)	4329. Twice-weekly report of items requiring segregation (1) A <i>Dealer Member</i> must produce a segregation report at least twice weekly.
Rule 2600, Statement 4 – Minimum required firm policies and procedures (9)	4330. Reporting segregation deficiency (1) A <i>Dealer Member</i> must set reasonable guidelines so that any material segregation deficiency is reported promptly to senior management.
Rule 2600, Statement 4 – Minimum required firm policies and procedures (4)	4331. Authorized personnel move securities (1) A <i>Dealer Member</i> must limit who can move <i>segregated securities</i> into or out of segregation to only authorized personnel.
New	4332. - 4339. - Reserved
New	Part B - Custody and related internal control requirements
New	Part B.1 - General custody requirements
New	4340. Introduction (1) A <i>Dealer Member</i> takes on certain operational risks when it has custody of securities. These risks arise in connection with the location where and by whom the securities are held and whether a <i>Dealer Member</i> has adequate internal controls to deal with these risks. Part B of Rule 4300 prescribes requirements for managing the risks related to securities custody. As these risks are quantifiable, they are treated as margin charges when calculating <i>Dealer Member risk adjusted capital</i>. This Part B of Rule 4300, in conjunction with <i>Form 1</i>, prescribes these charges.
Rules 2000.1 and 2000.2	4341. Hold securities in an acceptable securities location (1) A <i>Dealer Member</i> must hold securities, including book-based securities, in an <i>acceptable securities location</i> as prescribed in this Rule and <i>Form 1</i> [LINK Form 1,

	definition “acceptable securities locations”]. Acceptable securities locations can either be acceptable internal securities locations, which include acceptable transfer locations; or acceptable external securities locations, which in Form 1 are simply referred to as “acceptable securities locations”.
Rules 2000.2, 1 st sentence and 2600, Statement 4 – Minimum required firm policies and procedures (2)	4342. Timely deposit (1) A Dealer Member must deposit securities requiring segregation in an <i>acceptable securities location</i> on a timely basis.
New	Part B.2 - Acceptable securities locations
Rule 2000.2, 1 st sentence	4343. Acceptable internal storage location (1) Securities in a Dealer Member’s physical possession must be held in an internal storage location that meets the requirements in section 4344, in order for the internal storage location to be an acceptable internal securities location.
Rule 2000.2(a)	4344. Acceptable Internal storage location requirements (1) A Dealer Member’s internal storage location must: (i) be subject to ongoing adequate internal controls and systems for safeguarding securities; and (ii) hold all unencumbered security positions in the physical possession of the Dealer Member.
Rule 2000.2(b)	4345. Acceptable transfer locations (1) Securities in transfer must be in the possession of a registered or recognized transfer agent and a Dealer Member must comply with the applicable confirmation requirements in sections 4355 through 4359, in order for the transfer location to be an acceptable transfer location.
Rule 2000.1, 1 st paragraph	4346. Securities not under a Dealer Member’s control or physical possession (1) Securities not under a Dealer Member’s control or physical possession must be held in an <i>acceptable external securities location</i> or the Dealer Member must comply with the client waiver requirements in section 4351.

Form 1, General Notes and Definitions, (d) “acceptable securities locations”

4347. Entities that may be *acceptable external securities locations*

- (1) Entities that may be *acceptable external securities locations* must comply with the Corporation’s requirements prescribed in this Rule and in Form 1 [LINK: Form 1, General Notes and Definitions, definition of “acceptable securities locations”]. In Form 1, the entities that may qualify as “*acceptable securities locations*” are grouped into 7 categories: depositories and clearing agencies, acceptable institutions and subsidiaries of acceptable institutions, acceptable counterparties, banks and trust companies, mutual funds or their agents, regulated entities, and foreign institutions and foreign securities dealers.

Form 1, General Notes and Definitions, (d) “acceptable securities locations”

4348. Approval of foreign institutions and foreign securities dealers

- (1) To obtain the Corporation’s approval of a foreign institution or foreign securities dealer as an acceptable securities location, a Dealer Member must:
- (i) perform due diligence;
 - (ii) approve the foreign institution or securities dealer as an *acceptable external securities location*; and
 - (iii) complete a certificate in the form prescribed in Guidance Note 4340-1 [LINK: Guidance Note 4340-1, Appendix 1] evidencing its due diligence and approval.

Form 1, General Notes and Definitions, (d) “acceptable securities locations”

4349. Application to the Corporation for approval of foreign institutions and foreign securities dealers

- (1) A Dealer Member must apply in writing to the Corporation for review and approval of a foreign institution or foreign securities dealer as an acceptable securities location.
- (2) The application to the Corporation must include the following:

Document	Contents	Form (if Corporation-prescribed)
1. Foreign custodian	1. Due diligence questionnaire	Guidance Note 4340-1, Appendix

Form 1, General
Notes and
Definitions, (d)
“acceptable
securities locations”

questionnaire and certificate of Dealer Member board approval	2. Certificate of Dealer Member board approving foreign custodian as location for holding securities	1 [LINK: Guidance Note 4340-1, Appendix 1]
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C\$150 million	

4350. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

- (1) A Dealer Member’s board of directors or appropriate committee must annually approve in writing a foreign institution or foreign securities dealer for it to continue to be an acceptable securities location.
- (2) The annual approval must be given as follows:

Document	Contents	Notes
Dealer Member’s annual approval of foreign custodian	Dealer Member board’s or appropriate committee’s annual written approval of foreign custodian as foreign location for holding securities <i>Evidence that the Dealer Member Board had reviewed the most recently available audited financial statements and verified that the foreign custodian continued to meet the \$150 million capital requirement</i>	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination of the Dealer Member

- (3) Without this written approval, the location is a non-acceptable securities location.

Form 1, Statement B,
Notes and
Instructions, Note to
Line 18

4351. Obtaining a client waiver when an *acceptable external securities location* is unavailable

- (1) If a Dealer Member holds client securities in a foreign jurisdiction where:
 - (i) laws and circumstances may restrict the transfer of securities from that jurisdiction; and
 - (ii) the Dealer Member cannot arrange to hold the client's securities in the jurisdiction at an *acceptable external securities location*,

the Dealer Member must obtain a waiver from the client [\[LINK: Guidance Note 4340-1\]](#).

- (2) The client's waiver in approved form must be obtained for each transaction [\[LINK: Guidance Note 4340-1, Appendix 2\]](#).
- (3) In the waiver, the client must:
 - (i) consent to the arrangement;
 - (ii) acknowledge the risks associated with holding securities at the specified foreign custodian on behalf of the Dealer Member in the specified country; and
 - (iii) waive any claims it may have against the Dealer Member and hold the Dealer Member harmless if the foreign custodian loses the securities.
- (4) On obtaining the waiver, a Dealer Member may hold those client securities at a custodian in the foreign jurisdiction if the Dealer Member has a written custodial agreement with the custodian.

New

Part B.3 - Written custodial agreement requirement

Rule 2000.1, 1st sentence and (a), (b) and (c) and Rule 2600, Statement 4 – Minimum required firm policies and procedures (3)

4352. Agreement with each *acceptable external securities location*

- (1) A Dealer Member and each *acceptable external securities location* holding securities for the Dealer Member must have a written custodial agreement [\[LINK: Guidance Note 4340-2, Appendices 1 and 2\]](#) that states that:
 - (i) the Dealer Member must give prior written consent to any use or disposal of the securities;
 - (ii) security certificates can be delivered promptly on

		demand or, if certificates are not available and the securities are book-based, must be transferable either from the location or to another person at the location promptly on demand; (iii) the securities are held in segregation for the Dealer Member or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian; and (iv) the custodian indemnifies and saves the Dealer Member harmless against and from any and all Dealer Member losses due to the custodian's failure to return any securities or property it holds to the Dealer Member. However, the custodian's liability is limited to the market value of the securities and property at the time it was required to deliver them to the Dealer Member. (2) This written custodial agreement is a condition of the custodian qualifying as an <i>acceptable external securities location</i>.
New		4353. Bare trustee custodial agreement (1) For book-based security holdings, a Dealer Member is in compliance with section 4352 if the Corporation, as bare trustee for Dealer Members, has an approved form of custodial agreement with the custodian [LINK: Guidance Note 4340-2, Appendix 3].
New		Part B.4 - Confirmation and reconciliation requirements
Rule 2000.2(a)		4354. Securities in transit (1) If securities are in transit between internal storage locations: (i) for which there are no adequate internal controls maintained; or (ii) for more than five business days, those securities are not considered to be under the Dealer Member's control or physical possession for purposes of good <i>segregation</i>.
Rule 300.2(a)(vii)(2)		4355. Confirmations from <i>external securities locations</i> (1) A Dealer Member must receive a positive confirmation of

Rule 2000.2(b), 2 nd paragraph	all securities positions annually at its audit date from each <i>external securities location</i>. (2) If a Dealer Member does not receive a positive annual audit confirmation of a securities position from an <i>external securities location</i>, then the Dealer Member must transfer the position to its difference account.
Rule 2000.2(b), 1 st sentence of 3 rd paragraph	4356. Confirmations from <i>transfer locations</i> in Canada (1) If a Dealer Member has delivered securities for re-registration to a <i>transfer location</i> in Canada, the Dealer Member must receive those securities within 20 business days of delivery. (2) If a Dealer Member has not received those securities within 20 business days of delivery, it must obtain written confirmation of the position receivable from the <i>transfer location</i> within 45 business days of delivery. (3) If the position remains unconfirmed after 45 business days from delivery, the <i>transfer location</i> is a non-acceptable <i>transfer location</i> for that position, and the Dealer Member must transfer the position to its difference account.
Rule 2000.2(b), 2 nd sentence of 3 rd paragraph	4357. Confirmations from <i>transfer locations</i> in the United States (1) If a Dealer Member has delivered securities for re-registration to a <i>transfer location</i> in the United States, the Dealer Member must receive those securities within 45 business days of delivery. (2) If a Dealer Member has not received those securities within 45 business days of delivery, it must obtain written confirmation of the position receivable from the <i>transfer location</i> within 70 business days of delivery. (3) If the position remains unconfirmed after 70 business days from delivery, the <i>transfer location</i> is a non-acceptable <i>transfer location</i> for that position, and the Dealer Member must transfer the position to its difference account.
Rule 2000.2(b), 2 nd sentence of 3 rd paragraph	4358. Confirmations from <i>transfer locations</i> outside Canada and the United States (1) If a Dealer Member has delivered securities for re-

	registration to a <i>transfer location</i> outside Canada and the United States, the Dealer Member must receive those securities within 70 business days of delivery. (2) If a Dealer Member has not received those securities within 70 business days of delivery, it must obtain written confirmation of the position receivable from the <i>transfer location</i> within 100 business days of delivery. (3) If the position remains unconfirmed after 100 business days from delivery, the <i>transfer location</i> is a non-acceptable <i>transfer location</i> for that position, and the Dealer Member must transfer the position to its difference account.
Rule 2000.9, 7 th paragraph	4359. Confirmations of stock dividends receivable and stock splits (1) If a Dealer Member has not received the securities from a declared stock dividend or stock split within 45 business days of the date receivable, the Dealer Member must obtain written confirmation of the position receivable. (2) If the position remains unconfirmed after 45 business days, the Dealer Member must transfer the position to its difference account.
New	4360. Reconcile books and records for mutual funds and deposit investment contracts (1) A Dealer Member must, at least monthly, reconcile its books and records of securities consisting of mutual funds and evidences of deposit with records provided by the issuing mutual fund or financial institution. [LINK GN 4340-2]
New	Part B.5 - Margin requirements [LINK GN 4340-2]
Form 1, Statement B, Notes and Instructions, Notes to Lines 18 and 20	4361. Acceptable securities location (1) For securities a Dealer Member holds at an <i>acceptable securities location</i>, custodial related margin requirements will only apply to unresolved differences. [LINK Form 1, Statement B, Notes and Instructions, Line 20]
Form 1, Statement B, Notes and Instructions, Notes to Lines 18 and 20	4362. Margin charges – non-acceptable securities location (1) For securities a Dealer Member holds at a non-acceptable securities location, additional margin requirements

Form 1, Statement B,
Notes and
Instructions, Notes to
Lines 18 and 20

prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4351.

4363. Non-acceptable internal storage and non-acceptable securities location

- (1) If securities are:
- (i) not considered to be under the Dealer Member's control or physical possession for purposes of good *segregation* under section 4354; or
 - (ii) not under a Dealer Member's physical possession and are held at a non-acceptable securities location because:
 - (a) the location does not meet the criteria for an acceptable external securities location as specified in section 4347; or
 - (b) there is no annual written approval of a foreign institution or foreign securities dealer as an acceptable securities location as specified in section 4350,

Then, when it calculates *risk adjusted capital*, a Dealer Member must deduct 100% of the *market value of the securities* held in custody with the non-acceptable securities location. [\[LINK Form 1, Statement B, Notes and Instructions, Line 18\]](#)

Rules 2000.2(b), 4th
paragraph and
2000.9, 7th and 8th
paragraphs and Form
1, Statement B,
Notes and
Instructions, Notes to
Line 20

4364. No confirmation from securities location

- (1) Security positions where the Dealer Member has not received:
- (i) a positive annual audit confirmation under subsection 4355(2); or
 - (ii) a confirmation from a transfer agent, within the required time period, under subsection 4356(3), 4357(3) or 4358(3); or
 - (iii) a confirmation of a related stock split or stock dividend under subsection 4359(2)
- are not considered to be under the Dealer Member's control or physical possession for purposes of good *segregation* and must be transferred to a Dealer Member's difference account.
- (2) For difference account positions in subsection (1), the

Form 1, Statement B, Notes and Instructions, Notes to Lines 18 and 20 and Statement C, Notes and Instructions, Notes to Line 2(c)

Dealer Member must:

- (i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the security position market value and the normal inventory margin; and [\[LINK Form 1, Statement B, Notes and Instructions, Line 20\]](#)
- (ii) undertake to borrow or buy-in the position pursuant to section 4367.

4365. No written custodial agreement

- (1) If a Dealer Member does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an acceptable securities location, it must provide margin on the security positions held in custody at that custodian in accordance with subsections 4365(2) and 4365(3). [\[LINK GN 4340-2\]](#)
- (2) **Dealer Member has no *set-off risk* with the custodian**
 - (i) If the Dealer Member has no *set-off risk* with the custodian, in determining its early warning excess and early warning reserve, the Dealer Member must deduct as a margin requirement 10% of the market value of the securities held in custody at the custodian. [\[LINK Form 1, Statement C, Notes and Instructions, Line 2\(c\)\]](#)
- (3) **Dealer Member has *set-off risk* with the custodian**
 - (i) If the Dealer Member has *set-off risk* with the custodian, in determining:
 - (a) its *risk adjusted capital*, the Dealer Member must deduct as a margin requirement the lesser of:
 - (I) 100% of the *set-off risk* exposure, and
 - (II) 100% of the *market value of securities* held in custody
 and
 - (b) its early warning excess and early warning reserve, the Dealer Member must deduct as a margin requirement the lesser of:
 - (I) 10% of the market value of the securities held in custody at the

custodian; and

- (II) 100% of the market value of the securities held in custody at the custodian less amount required in sub-clause 4365(3)(i)(a).

[LINK Form 1, Statement B, Notes and Instructions Line 18]

Rule 2000.9, 8th paragraph and Form 1, Statement B, Notes and Instructions, Notes to Line 20

4366. Books and records – reconciliation

- (1) If a Dealer Member reconciles its books and records to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4360, the Dealer Member must provide margin based on the requirements in Form 1, Statement B, Line 20, Notes and Instructions for any unresolved differences. [LINK Form 1, Statement B, Line 20]
- (2) If a Dealer Member does not reconcile its books and records with files or statements received from mutual funds, or financial institutions for evidences of deposit, it must:
 - (i) in determining its *risk adjusted capital*, deduct as a margin requirement for unresolved differences an amount equal to:
 - (a) 10% of the *market value of the securities*, where there have been no transactions in the securities, other than redemptions and transfers, for at least six months and no loan value has been given on the securities; or
 - (b) 100% of the *market value of the securities*. [LINK Form 1, Statement B, Line 20]
 - (ii) undertake to borrow or buy-in the position pursuant to section 4367.

Rule 2000.9, 8th paragraph

4367. Difference accounts

- (1) A Dealer Member must maintain a difference or suspense account to record all securities not received due to unreconcilable differences or errors in any accounts.
- (2) If a Dealer Member has not received the securities recorded in a difference account within 30 business days of recording the deficiency, the Dealer Member must:
 - (i) borrow the same class or series of securities to

	cover the deficiency; or (ii) undertake to purchase the securities immediately.
New	4368. - 4379. - Reserved
New	Part C – Client free credit balance requirements
New	4380. Introduction (1) Part C of Rule 4300 restricts a Dealer Member’s use of clients’ <i>free credit balances</i> in its business.
Rules 1200.1(a) and (b)	4381. Definitions (1) In Part C of Rule 4300: (i) “ <i>client free credit balance</i> ” means: (a) For cash and margin accounts, the credit balance less an amount equal to the aggregate of: (I) the market value of short positions and (II) margin required on those short positions. (b) For futures accounts, the credit balance less an amount equal to the aggregate of: (I) margin required to carry open futures contracts or futures contract option positions; less (II) any equity in those contracts; plus (III) any deficits in those contracts. However, the aggregate amount must not exceed the dollar amount of the credit balance. (ii) “ <i>net allowable assets</i> ” means a Dealer Member’s net allowable assets calculated in Statement B of Form 1.
Form 1, Statement D	4382. Dealer Member’s use of client <i>free credit balances</i> (1) A Dealer Member may use its clients’ <i>free credit balances</i> in its business only in accordance with Part C of Rule 4300.
Rule 1200.2	4383. Notation on client account statements (1) A Dealer Member that does not keep its clients’ <i>free credit balances</i> :

	(i) segregated in trust for clients in an account with an <i>acceptable institution</i> and (ii) separate from other money the Dealer Member receives; must clearly write the following or equivalent on all statements of account it sends to clients: “Any <i>free credit balances</i> represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business.”
Rule 1200.3	4384. Calculating usable <i>free credit balances</i> (1) A Dealer Member may not use in its business an amount of clients’ <i>free credit balances</i> that totals more than (i) eight times the Dealer Member’s <i>net allowable assets</i> plus (ii) four times the Dealer Member’s early warning reserve [LINK to Statement C of Form 1 on calculating EW reserve] (2) A Dealer Member must segregate clients’ <i>free credit balances</i> in excess of the amount calculated in (1) above either: (i) in cash held in trust for clients in a separate account with an acceptable institution; or (ii) in bonds, debentures, treasury bills, and other securities with a maturity of less than one year of, or guaranteed by, the Government of Canada, a province of Canada, the United Kingdom, the United States, or any other national foreign government that is on the List of Basle Accord Countries.
Rule 1200.4	4385. Weekly calculation (1) At least weekly, a Dealer Member must calculate the amounts that must be segregated under Section 4384.
Rules 1200.5 and 1200.6	4386. Daily compliance review (1) Every day, a Dealer Member must review its compliance with Section 4384 against the amounts Part C of Rule 4300 requires it to segregate.

	(2) A Dealer Member must identify and promptly correct any deficiency in amounts of <i>free credit balances</i> required to be segregated.
New	4387. - 4399. - Reserved
New	Part D – Safekeeping requirements
New	4400. Introduction
	(1) Part D of Rule 4400 requires a Dealer Member to have adequate safekeeping arrangements in place to protect its clients’ assets.
Rule 2600, Statement 5 – Minimum required firm policies and procedures (1)	4401. Written safekeeping agreement
	(1) A Dealer Member with <i>securities held for safekeeping</i> must have a written safekeeping agreement with each client it holds securities for.
Rule 1.1, “Securities Held for Safekeeping”	4402. Securities free from encumbrance
	(1) A Dealer Member must keep <i>securities held for safekeeping</i> free from any encumbrance.
Rule 2600, Statement 5 – Min required firm policies and procedures (2)	4403. Procedures to keep securities apart
	(1) A Dealer Member must keep <i>securities held for safekeeping</i> separate from all other securities and must have procedures in place to ensure this separation.
Rule 2600, Statement 5 – Minimum required firm policies and procedures (3)	4404. Identifying securities held for safekeeping in records
	(1) A Dealer Member must specifically identify and record <i>securities held for safekeeping</i> in its securities position records and client’s ledger and statement of account.
Rule 2600, Statement 5 – Minimum required firm policies and procedures (4)	4405. Release of securities held in safekeeping
	(1) A Dealer Member may release <i>securities held for safekeeping</i> to others only when the client so instructs.
New	4406. - 4419. - Reserved
New	Part E – Internal controls requirements for safeguarding cash and securities
New	4420. Introduction
	(1) Part E of Rule 4400 requires a Dealer Member to have policies and procedures to prevent loss of its clients’ and

Rule 2600, Statement 6 – Control Objectives (a) and (b) and Minimum required firm policies and procedures	its own assets. 4421. Safeguarding client and Dealer Member cash and securities (1) A Dealer Member must safeguard its clients' and its own cash and securities: (i) to protect them against material loss; and (ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis. (2) A Dealer Member must develop, and comply with, internal policies and procedures that meet at least the minimum requirements for safeguarding cash and securities as described in sections 4422 through 4433. (3) The Corporation recognizes that a Dealer Member with a small operation may be unable to comply with this Rule's requirements to segregate duties. If these minimum requirements are inappropriate because of a Dealer Member's small size, it must implement alternative control procedures that the Corporation approves.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (1)	4422. Receipt and delivery of securities (1) Personnel who receive and deliver physical securities must not have access to the Dealer Member's security records. (2) The Dealer Member must handle securities in a restricted and secure area. (3) The receipt and delivery of securities must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers). (4) A Dealer Member using mail service must send negotiable certificates by registered mail. (5) A Dealer Member must obtain signed receipts from the client or agent for all securities not delivered against payment.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (2)	4423. Restricting access to securities (1) Only designated individuals may physically handle securities. (2) Securities may be physically handled only in a restricted

Rule 2600, Statement 6 – Minimum required firm policies and procedures (3)	and secure area. (3) Only individuals not involved in maintaining or balancing Dealer Member records may handle physical securities. 4424. Clearing (1) A Dealer Member must promptly compare and balance its records with reports of the previous day’s settlements. (2) Only personnel who do not carry out trading functions may reconcile clearing or settlement accounts. (3) A Dealer Member must take prompt action to correct differences in its records. (4) A Dealer Member must regularly review aged “fails to deliver” and “fails to receive” and identify the reason(s) for settlement delay. (5) Any fail that continues for an extended period of time must be promptly reported to senior management. (6) A Dealer Member must not use client securities in settling non-client short sales. (7) A Dealer Member must not use a client’s fully-paid securities in settling short sales of other clients unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to clause 4607(2)(ii). (8) A Dealer Member must reconcile its records daily with clearing corporation and depository records to ensure they agree.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (4)	4425. Protecting securities (1) A Dealer Member must assess the risk of any securities location that holds securities for it. (2) A Dealer Member’s processing controls must separate duties for recording entries from duties for initiating transfers on depository records (for example, transfers between the “free” and “seg” boxes). (3) At least monthly, a Dealer Member must reconcile its records of security and other asset positions to the custodian’s records where securities are held. The Dealer Member must investigate differences and make appropriate adjustment entries as necessary.

Rule 2600, Statement 6 – Minimum required firm policies and procedures (5)	(4) A Dealer Member must have a proper written custody agreement with each custodian where securities are held. 4426. How to handle security records (1) Personnel maintaining and balancing securities records must not be involved in handling physical securities. (2) A Dealer Member must promptly update its securities records to reflect changes in location and ownership of securities under its control. (3) Journal entries made to securities records must be clearly identified and a Dealer Member must review and approve adjustments before processing.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (6)	4427. Rules for counting securities (1) At least once a year, a Dealer Member must count physical securities held: (i) in segregation, and (ii) for safekeeping in addition to its annual external audit physical security count. (2) At least monthly, a Dealer Member must count physical securities held in current boxes. (3) Only personnel who do not handle securities may conduct physical security counts. (4) Count procedures must include all physical securities held in the box location(s) subject to the count and must simultaneously verify related positions such as positions in-transit or in the process of being transferred. (5) During a physical security count, both the description of the security and the quantity must be compared to the Dealer Member's records. Any discrepancies must be investigated and corrected promptly. Positions not reconciled within a reasonable period must be promptly reported to senior management and accounted for.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (7)	4428. Moving certificates and securities between branches (1) A Dealer Member must record the location of certificates in-transit between its offices in separate transit accounts on its security position records. The Dealer Member must reconcile these accounts monthly.

Rule 2600, Statement 6 – Minimum required firm policies and procedures (8)	(2) When securities are in transit, a Dealer Member must book out the securities from the branch account and book them into the transit account. When the securities are physically received at a branch, the Dealer Member must book them out of the transit account and into the receiving branch's account. (3) The receiving branch must check securities received against the accompanying transit sheet. (4) The methods of transportation a Dealer Member chooses for securities in transit must: (i) comply with insurance policy terms; and (ii) take into account the value, negotiability, urgency, and cost factors. 4429. Transferring securities (1) A Dealer Member must maintain a record showing all securities sent to, and held by, transfer agents. (2) Only designated individuals outside the transfer department have authority to request transfers into a name other than the Dealer Member's name. Only fully-paid securities (new issues excepted) may be transferred into a name other than the Dealer Member's name. (3) The transfer department may carry out transfers only when it receives a properly authorized request. (4) A Dealer Member's security position record must record, and name them as, "securities out for transfer". (5) A Dealer Member must have a receipt for a securities position at a transfer agent. (6) A Dealer Member must prepare, and management must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving securities from transfer agents. (7) Personnel handling transfers must not have other security-cage functions such as deliveries, current box, or segregation.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (9)	4430. Re-organization (1) A Dealer Member must have a formal procedure to identify and record the timing and terms of all issuances such as forthcoming rights and offers.

Rule 2600, Statement 6 – Minimum required firm policies and procedures (10)	(2) A Dealer Member must have a clear method of communicating upcoming re-organization activities to the sales force. These include deadlines for submitting special instructions in writing and any special handling procedures required for key dates. (3) A single person or department must have clear responsibility for organizing and handling each offer. (4) A Dealer Member must clearly define procedures to balance positions daily and to physically control securities. (5) A Dealer Member must regularly reconcile and review suspense accounts involving offers and splits. 4431. Handling dividends and interest (1) A Dealer Member must have a system to record the total dividends and interest payable and receivable at due date. (2) Record-keeping personnel must not handle cash or authorize payments. (3) At least monthly, a Dealer Member must: (i) reconcile dividend and interest accounts; and (ii) review aged dividend receivables. (4) Only the department manager or other senior personnel may authorize write-offs. (5) A supervisor or manager must approve journal entries to and from dividend and interest accounts. (6) A Dealer Member: (i) must not pay dividend claims - other than as part of an automatic settlement system - unless accompanied by supporting documents such as proof of registration; and (ii) must compare supporting documents with internal records for validity and then have senior personnel approve them. (7) A Dealer Member must withhold non-resident tax when required by law. (8) A Dealer Member must ensure client income is appropriately reported for income tax purposes.
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Rule 2600, Statement 6 – Minimum required firm policies and procedures (11)	4432. Reconciling internal accounts (1) At least monthly, a Dealer Member must reconcile internal accounts. (2) A supervisor must review the reconciliation.
Rule 2600, Statement 6 – Minimum required firm policies and procedures (12)	4433. Cash (1) Senior personnel must review and approve all bank reconciliations. (2) At least monthly, a Dealer Member must reconcile bank accounts in writing, identifying and dating all reconciling items. (3) Journal entries to clear reconciling items must be made on a timely basis and approved by management. (4) Bank accounts must be reconciled by personnel who do not have: (i) access to funds, either receipts and disbursements; or (ii) access to securities; or (iii) record-keeping responsibilities that include the authority to write or approve journal entries. (5) Senior management must establish criteria for approving the requisition of a cheque. (6) Cheques must be pre-numbered, and a Dealer Member must account for numerical continuity. (7) Cheques require the signatures of two authorized individuals. (8) The authorized individuals must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque. (9) A Dealer Member must limit and supervise access to any facsimile-signature machine.
New	4434. - 4449. - Reserved
New	Part F – Insurance Requirements
New	4450. Introduction (1) Part F of Rule 4400 requires a Dealer Member to have

Rule 400.4	enough insurance to protect against potential losses from theft, fraudulent acts, et cetera. 4451. Definitions (1) In Part F of Rule 4400: (i) “<i>base amount</i>” means the greater of: (a) the aggregate client net equity for all client accounts, where net equity for each client is the excess, if any, of the total value of cash and securities the Dealer Member owes to the client over the total value of cash and securities the client owes to the Dealer Member; and (b) the aggregate Dealer Member liquid and other allowable assets calculated in accordance with Form 1, Statement A. (ii) “<i>standard form FIB</i>” means the standard form of Financial Institution Bond insurance coverage a Dealer Member must obtain.
Rule 17.5	4452. Dealer Member must have insurance (1) A Dealer Member must have and maintain insurance: (i) against the types of loss including fidelity, premises, in-transit, forgery or alterations, securities, and mail; and (ii) with at least the minimum amount of coverage prescribed in Part F of Rule 4400.
Rule 400.6, 1st sentence	4453. Qualified insurance carriers (1) A Dealer Member must obtain and maintain insurance underwritten by either: (i) an insurer registered or licensed under the laws of Canada or a province of Canada; or (ii) a foreign insurer the Corporation has approved.
Rule 400.6, 2nd sentence	4454. Foreign insurers (1) To obtain Corporation approval, a foreign insurer must: (i) have a minimum net worth of \$75 million on its last audited balance sheet; (ii) have financial information acceptable to, and available for inspection by, the Corporation; and

	(iii) satisfy the Corporation that it is subject to supervision by regulatory authorities in its incorporation jurisdiction that is substantially similar to a Canadian insurance company's supervision.
Rule 400.1	4455. Mail insurance (1) A Dealer Member must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail. (2) If a Dealer Member delivers a written promise to the Corporation that it will not use registered mail for outgoing shipments of securities, the Corporation may exempt the Dealer Member from the requirement in subsection (1).
Rule 400.2	4456. Financial Institution Bond (1) A Dealer Member must have and maintain insurance against losses, using a financial institution bond (FIB) with a discovery rider attached or discovery provisions incorporated in the FIB. The five types of losses the insurance must cover are: (i) Any loss, including loss of property, from a dishonest or fraudulent act of a Dealer Member's employees: (a) committed anywhere; and (b) committed alone or with others. (ii) Any loss of money, securities, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of: (a) the insured's offices; (b) a banking institution's offices; (c) a clearing house; or (d) a recognized place of safe-deposit; all as defined in the <i>standard form FIB</i>. (iii) Any loss of money and negotiable or non-negotiable securities or other property, while in transit. The value of securities in transit in an employee's or agent's custody must not exceed the

protection under this clause. In-transit coverage must be calculated on a dollar-for-dollar basis. A Dealer Member must provide, for Corporation approval, a list of exceptions to the money, securities, or other property protected under this clause.

- (iv) Any loss through forgery or alteration of any:
 - (a) cheques;
 - (b) drafts;
 - (c) promissory notes; or
 - (d) other written orders or directions to pay sums in money;

excluding securities, as defined in the *standard form FIB*.

- (v) Any loss:
 - (a) through the purchase, acquisition, sale, delivery, extension of credit, or action on securities or other written instruments which prove to have been:
 - (I) forged;
 - (II) counterfeited;
 - (III) raised or altered; or
 - (IV) lost or stolen;
 or
 - (b) due to having guaranteed in writing or having witnessed any signatures on any transfers, assignments or other documents or written instruments, as defined in the *standard form FIB*.

Rule 400.4

4457. General minimum insurance requirement

- (1) Full-service and introducing Dealer Members types 3 and 4 must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$500,000; or
 - (ii) 1% of the base amount,
 subject to a maximum of \$25,000,000 for each clause.

Rule 400.4	4458. Minimum insurance requirement for certain introducing brokers (1) Introducing Dealer Members types 1 and 2 must maintain minimum insurance for each loss in subsection 4456(1) for the greater of: (i) \$200,000 for an introducing type 1 arrangement and \$500,000 for an introducing type 2 arrangement; or (ii) ½% of the base amount, subject to a maximum of \$25,000,000 for each clause.
Rule 400.5(b)	4459. Double aggregate limit (1) A Dealer Member must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement
Rule 400.5(f) and Form 1, Schedule 10	4460. Calculating minimum insurance requirement and RAC provisions (1) Every month, a Dealer Member must calculate its required minimum insurance coverage and file Schedule 10 with its MFR. (2) In calculating minimum insurance coverage requirements, a Dealer Member must treat non-negotiable and negotiable form securities as the same. (3) When calculating <i>risk adjusted capital</i>, a Dealer Member must provide capital for the amount of its insurance deductible.
Rule 400.5(c)	4461. Correction of insufficient coverage (1) If a Dealer Member has less coverage than the calculated minimum insurance requirement coverage and the deficiency: (i) is less than 10% of the minimum insurance requirement, the Dealer Member must correct the deficiency within 2 months of the filing date of the MFR within which the deficiency was reported. (ii) is 10% or more of the insurance requirement, the Dealer Member must promptly notify the Corporation and correct the deficiency within 10 days of identifying it.

Rule 400.7	4462. Global Financial Institution Bonds (1) If a Dealer Member maintains insurance under Part F of Rule 4400 that names the insured as, or that benefits, the Dealer Member and any other person, then: (i) the Dealer Member must have the right to claim directly against the insurer for losses, and payment or satisfaction of losses must be made directly to the Dealer Member; and (ii) the individual or aggregate limits under the <i>standard form FIB</i> may only be affected by claims made by or for: (a) the Dealer Member, (b) the Dealer Member's subsidiaries whose financial results are consolidated with the Dealer Member's, or (c) the Dealer Member's holding company, if the holding company does not carry on any business or own any investments other than its interest in the Dealer Member. This applies no matter what the claims, experience, or any other factor that refers to any other person.
Rule 400.3	4463. Notify the Corporation of underwriter insurance termination (1) A Dealer Member's <i>standard form FIB</i> and mail insurance policies must require the underwriter to notify the Corporation at least 30 days before it terminates or cancels insurance coverage.
Rule 400.3(b), 1 st 3.5 lines and end of section	4464. When insurance ends due to take-over (1) A Dealer Member taken over by another entity must ensure it has <i>standard form FIB</i> coverage for 12 months from the date of the take-over to cover discovery of any losses it had before the take-over date. (2) The Dealer Member must ensure that any additional premium is paid.
Rule 17.6	4465. Notify the Corporation of claims (1) A Dealer Member must give written notice to the Corporation within two business days of reporting a claim to the insurer or its authorized representative.

New	4466. - 4499. - Reserved
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Repealed current rule	Proposed plain language rule
New New New	Rules 4500 and 4600 – Financing Arrangements 4501. Introduction (1) Rules 4500 and 4600 set out the following Dealer Member requirements relating to financing arrangements: (i) Repurchase market trading practices <i>[Part A, Sections 4510 through 4518];</i> and (ii) Cash and securities loan, repurchase, and reverse repurchase transactions <i>[Part B, Sections 4600 through 4608];</i> 4502. - 4509. - Reserved
New Rule 3000, Introduction Rule 3000, Definitions	Part A – Repurchase market trading practices 4510. Introduction (1) Part A of Rule 4500 sets out a standard set of trading practices to increase the transparency of the repo markets and to promote liquidity and efficiency in the markets. 4511. Definitions (1) In Part A of Rule 4500, the following definitions apply: (i) “<i>best efforts</i>” means, a repo trade where the buyer assumes the risk that the seller cannot deliver the securities within the specified time. (ii) “<i>forward repo</i>” means, a repo trade that settles later than next day. (iii) “<i>general collateral</i>” means, Government of Canada debt that is CDSX eligible, including real-return bonds, strips and coupons. For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date. (iv) “<i>inter-dealer broker</i>” means, an organization that provides customers information, electronic trading and communications services for trading in wholesale financial markets. (v) “<i>odd-lot</i>” means, a lot less than \$25 million for

	either (i) overnight and term general collateral; or (ii) specials, both term and overnight. (vi) “repo” means, repurchase agreement that allows a debt securities owner to borrow money by selling the securities and agreeing to buy them back at an agreed price on a specific date.
New	4512. General (1) A Dealer Member trading in the repo market that does not include all necessary terms about sales and set-offs in an agreement with the other party must make a capital adjustment. [LINK: C-77, paragraph 6]
Rules 3000D(1), (2), (3), (4), (5) and (6)	4513. Marking to market (1) Unless otherwise agreed by the parties, a Dealer Member must periodically review its margins to ensure that they are still appropriate for the maturity dates. (2) Unless otherwise agreed by the parties, a Dealer Member that wants to mark-to-market its counterparties must do so by 11:30 a.m. (Toronto time). The mark-to-market must be done on a net basis and not done by issue. (3) If the parties cannot agree on a price, the current mid-market prices must be used to determine the mark-to-market price. A Dealer Member must use the composite prices on an inter-dealer broker’s screen to determine mid-market price. (4) A Dealer Member must maintain margin through margin calls and not through substitutions. (5) Cash and collateral considerations: (i) unless the parties agree otherwise, all dealer-to-dealer margin calls must be met with the transfer of cash and/or collateral. (ii) if a Dealer Member chooses to meet the margin call with cash, the cash may not be used to change the economic nature of the trade. The cash will bear interest at the rate agreed between the parties. (iii) if a Dealer Member chooses to meet a margin call using collateral, the collateral must have characteristics similar to or better than the collateral being repoed, be reasonably acceptable to the other party and be applied on a reasonable basis.

Rules 3000E(1) and (2)	(iv) a Dealer Member may deliver a maximum of one piece of collateral per million dollars. (6) A Dealer Member that wishes to substitute previously margined collateral must do so by 11:30 a.m. (Toronto time).
	4514. Forward repo confirmations (1) Trade confirmations and minimum requirements (i) a Dealer Member must send a confirmation of a forward repo on the trade date. (ii) in addition to other regulatory requirements, the confirmation must include, at a minimum, the: (a) money or par amount, as applicable; (b) start date; (c) end date; (d) interest rate; (e) collateral type; and (f) any substitution rights. (2) All forward settlement transactions must be confirmed on the CDSX system.
Rules 3000F(1) and (2)	4515. Obligation to make coupon payments (1) A repo seller must receive payment from the repo buyer of any income on the securities that the seller would have been entitled to if it had not entered the repo transaction. (2) A repo buyer does not need to transfer an amount equal to the income payment to the repo seller, but can apply it to reduce the amount transferred to the repo buyer at the end of the transaction. All repo agreements are priced this way, unless otherwise agreed. [LINK: section 4, Corporation Repurchase/Reverse Repurchase Transaction Agreement]
Rules 3000I(1) and (2)	4516. Substitutions (1) A repo purchaser does not need to accept collateral substitutions unless it agreed to do so before the transaction. (2) Collateral passed for an overnight or term trade may be substituted on a best efforts basis only.

Rules 3000G and H

4517. General collateral repo allocations

- (1) General collateral transactions in the repo market are allocated based on the type of transaction. The general allocation methods for cash settlements, forward settlements and replacement transactions when substitutions occur are set out in this section.
- (2) Money-fill basis
 - (i) general collateral transactions are completed on a money-fill basis (defined below), unless otherwise agreed.
 - (ii) a transaction executed on a money-fill basis means that the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocations will be no more than two issues to make \$50 million.
 - (iii) clause (ii) applies to cash trades, forward settlements and substitutions.
- (3) If a transaction is executed on a par basis:
 - (i) the allocated amount must equal the par amount for cash and forward settlements; and
 - (ii) for substitutions, the replacement transaction must be done on the basis of the par amount originally transacted.
- (4) Special repo trades must be done on a par basis.

Rule 3000A

4518. Confidentiality

- (1) Subject to subsection (3), all Dealer Members and inter-dealer brokers must maintain the confidentiality of the names of the parties to a trade.
- (2) Dealer Members and inter-dealer brokers must not ask questions to try to discover the identity of a party.
- (3) Certain information may be disclosed as follows:
 - (i) for a trade that is done through an inter-dealer broker, a Dealer Member may disclose the identity of a party to only counterparties to the trade after the trade is completed.
 - (ii) an inter-dealer broker may inform a Dealer Member that it does not have a line of credit with the other party to the trade before a market is made, as long

	as it does not give any other information about that party. (iii) for a name “give up” trade, the full names of parties must be disclosed to counterparties to the trade at the time of the trade to ensure that Dealer Members follow proper credit procedures. (iv) subsections (1) and (2) do not prevent Dealer Members or inter-dealer brokers from asking or answering questions to determine the size of the bid or offer.
New	4519. - 4599. - Reserved
New	Part B - Cash and securities loan, repurchase, and reverse repurchase transactions
New	4600. Introduction (1) Part B of Rule 4600 covers requirements for cash and securities loan, <i>repurchase</i>, and <i>reverse repurchase</i> transactions and includes: (i) Definitions (ii) General requirements (iii) Written agreement requirement (iv) Margin requirements for cash and securities loans (v) Cash and securities loans between a Dealer Member and an <i>acceptable institution</i> or <i>acceptable counterparty</i> (vi) Cash and securities loans between regulated entities (vii) Cash and securities loans with other counterparties (viii) Margin requirements for repurchase and reverse repurchase transactions 4601. Definitions (1) In Part B of Rule 4600, the following definitions apply: (i) “<i>excess collateral deficiency</i>” means, the actual collateral provided to the counterparty less the collateral that the counterparty must receive under regulatory or legislative requirements. The Corporation regularly publishes a list of current collateralization rates for each category of acceptable counterparties.
Rules 100.17(a), (b)(ii), (b) 2 nd to last sentence and 2200.1 and Form 1, Schedules 1 and 7	

- (ii) *“fixed rate”* means, a rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until termination.
- (iii) *“overnight cash loan agreement”* means, an oral or written agreement under which a Dealer Member deposits cash with another Dealer Member for up to two business days.
- (iv) *“overnight repurchase, reverse repurchase, or securities loan agreement”* means, an obligation to repurchase or resell a security or terminate a loan within five business days of the date on which the obligation is assumed.
- (v) *“regular settlement”* means, the settlement or delivery dates generally accepted in industry practice for a security in the market where the transaction occurs.
- (vi) *“repurchase agreement”* means, an agreement to sell and repurchase securities.
- (vii) *“reverse repurchase agreement”* means, an agreement to purchase and resell securities.
- (viii) *“Schedule I bank”* means, under the Bank Act (Canada), a Schedule I bank that has a capital and reserves position of one billion (\$1,000,000,000) or more at the time of the securities loan transaction.
- (ix) *“written cash and securities loan agreement”* means, a written cash and securities loan agreement, other than an overnight cash loan agreement, where the Dealer Member receives or pays cash, that contains the minimum provisions described in this Rule.

Rules 2200.4,
2200.5, 2200.6(c),
2200.7(a) and
2200.8(a), (b) and
(e) last 2 lines

4602. General requirements

(1) Marking to market

- (i) Borrowed securities and collateral must be marked to market daily on a loan-by-loan basis.

(2) Record transactions

- (i) A Dealer Member must record all financing transactions in its books and records.

(3) Loan accounts

- (i) A Dealer Member must keep financing accounts

Rules 2200.2, first sentence and 2200.3 and Form 1, Schedules 1 and 7

Form 1, Notes and Instructions to Schedules 1 and 7

separate from the Dealer Member's securities trading accounts.

- (ii) A Dealer Member must keep financing accounts separate from the client's securities trading accounts.

(4) **Confirmations and month-end statements**

- (i) A Dealer Member must issue confirmations and month-end statements, except when the transaction with other regulated entities is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

- (i) A Dealer Member must begin a buy-in (liquidating transaction) within two business days of the date on which the buy-in notice is given.

4603. Written agreement requirement

- (1) If a Dealer Member has a cash and securities loan agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in Rule 5100.
- (2) If a Dealer Member has a written agreement for a *repurchase agreement* or *reverse repurchase agreement*, that agreement must include the parties' acknowledgement that either has the right, on notice, to—at any time—call for any shortfall in the difference between the collateral and the securities.
- (3) If a Dealer Member does not have a *written agreement* for a securities loan, a *repurchase agreement* or *reverse repurchase agreement*, then applicable margin rates are affected.

4604. Margin requirements for cash and securities loans

- (1) A Dealer Member must calculate margin requirements for cash and securities loans as follows:

Margin requirements for cash and securities loans		
<i>Counterparty</i>	<i>With a written borrowing and lending agreement</i>	<i>No written borrowing and lending agreement</i>
Acceptable Institution	No margin	No margin

Acceptable Counterparty	Excess collateral deficiency	100% of the market value of the securities or cash delivered to the other party
Regulated Entity	Market value deficiency	100% of the market value of the securities or cash delivered to the other party
Other	Margin	100% of the market value of the securities or cash delivered to the other party

Rules 2200.7(a) and (b)

4605. Cash and securities loans between a Dealer Member and an *acceptable institution* or *acceptable counterparty*

- (1) When a cash or securities loan is between a Dealer Member and an *acceptable institution* or an *acceptable counterparty*, they may use as collateral letters of credit that a *Schedule I bank* issues.

Rules 2200.6(a) and (b)

4606. Cash and securities loans between *regulated entities*

- (1) If a cash or securities loan is between *regulated entities*:
 - (i) the *written securities loan agreement* must state that either party has the right, at any time by giving notice to the other party, to call for any shortfall in the difference between the collateral and the borrowed securities; and
 - (ii) They may use as collateral, a *Schedule I bank* letter of credit.

Rules 2200.8(c)(A), (B) and (C) and 2200.8(d)

4607. Cash and securities loans with *other counterparties*

- (1) When a cash or securities loan is between a Dealer Member and a party to which neither section 4605 nor 4606 applies, a Dealer Member must comply with subsections (2) and (3).
- (2) Securities pledged as collateral must:
 - (i) be held by:
 - (a) the Dealer Member in segregation,
 - (b) an acceptable depository, or
 - (c) a bank or trust company that is either an *acceptable institution* or an *acceptable*

counterparty under an escrow agreement. The escrow agreement must be between the Dealer Member and the depository, institution, or counterparty and must be in a form acceptable to the Corporation.

- (ii) either:
 - (a) be securities with a margin rate of 5% or less, or
 - (b) be preferred shares or debt securities, convertible into common shares of the class borrowed.

- (3) If a Dealer Member does not comply with subsection (2) above, its net allowable assets are subject to a charge calculated in the same manner as for client account short securities balances.

Form 1, Notes and Instructions to Schedules 1 and 7

4608. Margin requirements for repurchase and reverse repurchase agreement transactions

- (1) A Dealer Member must calculate margin requirements for repurchase and reverse repurchase agreement transactions as follows:

Margin requirements for repurchase and reverse repurchase agreement transactions			
<i>Counterparty</i>	<i>With a written repurchase or reverse repurchase agreement</i>	<i>No written repurchase or reverse repurchase agreement</i>	
		<i>Calendar days after regular settlement</i>	
		<i>30 days or less</i>	<i>Greater than 30 days</i>
Acceptable institution	No margin	No margin, if confirmed within 15 business days. Margin, if unconfirmed after 15 business days	
Acceptable	Excess	Excess	Margin

Regulated entity	Market value deficiency	Market value deficiency, if confirmed within 15 business days. Margin, if unconfirmed after 15 business days.	Margin
Other	Margin	Margin	200% of margin (to a maximum of the market value of the underlying securities)

Note: Margin for repo and reverse repo transactions is calculated from the date of *regular settlement*. “Calendar days” refers to the original term of the *repo* or *reverse repo*.

Rules 100.17(b), (c) and (d)

4609. Margin requirements for cash and securities loan, repurchase, and reverse repurchase transactions with term risk

- (1) Despite any requirement in sections 4604 and 4608, if the special conditions for a *securities loan* or *repurchase agreement* set out in the chart below are met, the Dealer Member must provide margin as follows for un-hedged and offsetting positions, respectively:

Un-hedged position		
Position	Special conditions	Margin required
<i>Securities loan, repurchase agreement, or reverse repurchase agreement</i>	- the obligation to repurchase, resell or terminate the loan is outstanding for more than five business days; - the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction; - the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the	Calculate margin required according to the requirements in sections 5310 and 5311

	Offsetting positions		
	Offsetting positions	Special conditions	Margin required
	<i>Securities loan versus securities loan</i> or <i>Repurchase agreement versus reverse repurchase agreement</i>	- the date of repurchase, resale, or termination of a loan is more than one year away for each of the offsetting positions; and - the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency;	Calculate margin required based on the net market value of the two positions
	<i>Securities loan versus securities loan</i> or <i>Repurchase agreement versus reverse repurchase agreement</i>	the date of repurchase, resale, or termination of a loan is within one year away for each of the offsetting positions;	Margin required is the difference between the normal margin required on the two positions
New	4610. - 4699. - Reserved		

Repealed current rule	Proposed plain language rule
New New	Rules 4700 and 4800 - Operations 4701. Introduction (1) Rules 4700 and 4800 set out the following requirements relating to Dealer Member operations: (i) Business continuity plan [Part A, Sections 4710 through 4714]; (ii) Trading and delivery standards including: (a) General [Part B.1, Sections 4751 through 4758]; (b) Fixed income [Part B.2, Sections 4759 through 4762]; (c) Stocks [Part B.3, Sections 4763 through 4765]; and (d) Buy-ins [Part B.4, Section 4766]; and (iii) Account transfers [Part C, Sections 4800 through 4815]. 4702. - 4709. - Reserved
New New Rule 17.16, 1st sentence, 1st clause Rule 17.16, 1st sentence, 2nd clause and 2nd sentence	Part A - Business continuity plan 4710. Introduction (1) To manage risk prudently and maintain investor confidence, <i>Dealer Members</i> must ensure they can continue to carry on business after a significant disruption and provide clients with prompt access to their assets. 4711. Creating a business continuity plan (1) A <i>Dealer Member</i> must establish and maintain a business continuity plan. 4712. Business continuity plan procedures (1) A <i>Dealer Member's</i> business continuity plan must identify the procedures it will take to deal with a significant business disruption.

Rule 17.16, 2nd paragraph, 1st sentence Rule 17.16, 2nd paragraph	(2) The procedures in subsection (1) must be based on the <i>Dealer Member's</i> assessment of its key business functions and required levels of operation during and following a disruption. (3) The procedures in (1) must be designed to ensure the <i>Dealer Member</i> stays in business long enough to meet its obligations to its clients and capital markets counterparties after a significant business disruption. 4713. Update business continuity plan (1) A <i>Dealer Member</i> must update its business continuity plan to reflect any significant change in any of its operations, structure, business, or locations. 4714. Annual review and test (1) Every year: (i) a <i>Dealer Member</i> must review and test; and (ii) its senior management must approve its business continuity plan. (2) During its annual review, a <i>Dealer Member</i> must make any modifications to its business continuity plan that are necessary due to changes in its operations, structure, business, or locations. (3) The <i>Corporation</i> may require a qualified third party to carry out the annual review and test. 4715. – 4749. - Reserved
New New	Part B - Trading and Delivery 4750. Introduction (1) The main purpose of Part B of Rule 4700 is to establish minimum trading and delivery requirements for transactions that will not be cleared and settled through a clearing corporation. Part B also sets additional <i>Dealer Member</i> reporting requirements on how quickly certain trades are to be reported to an acceptable trade matching utility. (2) Part B of Rule 4700 is divided into 4 sub-parts: ▪ Part B.1 – General ▪ Part B.2 – Fixed Income

New Rules 800.30(c), 800.30A, definition of "Participant" and "Settlement Service", 800.30D(a)(vii), 800.31(b)(i) and (ii) and 800.49, 2nd paragraph	▪ Part B.3 – Stocks ▪ Part B.4 – Buy-ins. (3) Sub-part B.1 applies to transactions that will be cleared and settled through a clearing corporation and also to those that will not be cleared and settled through a clearing corporation. (4) Sub-parts B.2, B.3 and B.4 apply to transactions that will be not be cleared and settled through a clearing corporation. Part B.1 - General 4751. Definitions (1) In this Rule: (i) <i>"Acceptable trade matching utility"</i> means the broker-to-broker trade matching utility in CDS Clearing and Depository Services Inc.'s CDSX, or a similar system approved by the <i>Corporation</i>. A list of approved acceptable trade matching utilities is updated and published as a notice by the <i>Corporation</i>. (ii) <i>"Eligible securities"</i> mean securities that are eligible to be deposited in the clearing corporation. (iii) <i>"Participant"</i> means a participant in a clearing corporation's <i>settlement service</i>. (iv) <i>"Qualified Canadian trust company"</i> means a trust company licensed to do business in Canada or a Canadian province with a minimum paid up capital and surplus of \$5,000,000. (v) <i>"Settlement service"</i> means a securities settlement service made available by <i>CDS Clearing and Depository Services Inc.</i> (vi) <i>"Recognized securities depository"</i> means <i>CDS Clearing and Depository Services Inc.</i> (vii) <i>"Depository eligible transactions"</i> means transactions in securities where the affirmation and settlement can be performed through the facilities or services of a <i>recognized securities depository</i>.
Rules 800.30B and 800.30C, 2nd sentence and one	4752. Use of a clearing corporation (1) <i>Dealer Members</i> who are participants in the same clearing corporation must use the clearing corporation's

new provision	settlement service to settle all trades between themselves involving eligible securities, unless both the delivering <i>Dealer Member</i> and the receiving <i>Dealer Member</i> agree otherwise. (2) If a Dealer Member is using a clearing corporation to settle a trade, it must report and settle the trade in accordance with Part B.1 of Rule 4700 and the clearing corporation's rules and procedures. (3) If a Dealer Member is not using a clearing corporation to settle a trade, it must use Parts B.1, B.2, B.3, and B.4 of Rule 4700.
Rule 800.49, 1 st sentence	4753. Use of a trade matching utility (1) For each non-exchange trade, involving CDS <i>eligible securities</i>, executed by a <i>Dealer Member</i> with another <i>Dealer Member</i>, each <i>Dealer Member</i> within one hour of executing the trade must: (i) Enter the trade into an <i>acceptable trade matching utility</i>; or (ii) Accept or reject any trade entered into an <i>acceptable trade matching utility</i> by another <i>Dealer Member</i>.
Rules 800.31(a) and (c)	4754. Payment or delivery through client settlement agent (1) For any arrangement where the payment of securities purchased or delivery of securities sold is to be made to or through a client's settlement agent, all of the following procedures must be followed: (i) The <i>Dealer Member</i> receives from the client prior to or at the time of accepting the order the name and address of the settlement agent and account number of the client on file with the settlement agent. Where settlement is made through a depository offering an identification number system for the clients of settlement agents of the depository, the <i>Dealer Member</i> must have the client identification number prior to or at the time of accepting the order and use the number in the settlement of the trade; (ii) Each order accepted from the client is identified as either a delivery or receipt against payment trade;

- (iii) The *Dealer Member* provides to the client a confirmation according to Rule 3600, Business Records;
- (iv) The *Dealer Member* has obtained an agreement from the client stating that the client will:
 - (a) Promptly provide its settlement agent with instructions regarding the transaction following its receipt of the transaction confirmation from the *Dealer Member*, or the relevant date and information as to each execution from the *Dealer Member*, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and
 - (b) Ensure that its settlement agent affirms the transaction no later than the next business day after the date of execution of the trade to which the confirmation relates;
- (v) The client and its settlement agent must use the facilities or services of a *recognized securities depository* for the affirmation and settlement of all *depository eligible transactions* through such facilities or services including book based or certificated settlement. This clause (v) applies only to transactions:
 - (a) To be settled in Canada; and
 - (b) Where both the *Dealer Member* and the settlement agent are not participants in the same recognized securities depository or the same facilities or services of such depository required in respect of the trade.

Rule 800.10

4755. Early registration of securities

- (1) Prior to the receipt of payment, a *Dealer Member* must not register any security, with the exception of a new issue at take down date, in the name of the customer or his or her nominee. A *Dealer Member's* absorption of bank or other charges incurred by a customer or his or her nominee for the registration of a security will be considered an infraction of this requirement.
- (2) After the receipt of payment, a *Dealer Member* may

Rule 800.13	absorb transfer fees incurred in the transfer of a security according to a customer's instructions. 4756. Repo and option granting transactions with clients (1) Before entering into the following transactions a <i>Dealer Member</i> must have in writing all terms relevant to the transaction on the face of the contract or if necessary, on an additional page attached to the contract provided those terms are referred to on the face of the contract, with a client: (i) An agreement to purchase or repurchase a security (ii) An agreement to sell or resell a security (iii) The granting of a put, call or similar option involving a security.
Rule 800.47	4757. When issued trading (1) Unless the parties to the trade agree otherwise or the <i>Corporation</i> provides a separate ruling: (i) All when issued trades made before the second trading day before the anticipated date of issue of the security must be settled on the anticipated date of issue of such security (ii) All when issued trades made on or after the second trading day before the anticipated date of issue of the security must be settled on the third settlement day after the trade date (iii) If the security has not been issued on the settlement date in clause (i) or (ii), such trades must be settled on the date that the security is actually issued.
Rule 800.38	4758. Tax payments (1) A selling <i>Dealer Member</i> must pay, or certify payment of, taxes required for a buying <i>Dealer Member</i> to transfer the securities purchased to nominee name, except in the situation where there is a register in the buying <i>Dealer Member's</i> province, and the buying <i>Dealer Member</i> chooses to transfer the securities to a register outside that province.
New	Part B.2 – Fixed income

Rules 800.5, 800.6, 800.7, 800.8, 800.9, 800.16, 800.33(a) and (b), 800.35 and 800.48

4759. Fixed income accrued interest

- (1) All securities having interest payable as a fixed obligation, except securities in sale and repurchase agreement transactions, must be conducted on an accrued interest basis until maturity or a default in such payment either occurs or is announced by the debtor, whichever is the earlier event. The *Corporation* may set aside this requirement in specific cases where common practice and expediency prompt such action and will give due notice to all *Dealer Members* in such cases.
- (2) Prior to actual default or announcement by the debtor as specified in subsection (1), sales made of securities but undelivered at the time of default or such announcement, must be conducted on an accrued interest basis under the terms of the original transaction.
- (3) Subsequent to default or announcement by the debtor as specified in subsection (1), the securities must be handled on a flat basis with all matured and unpaid coupons attached, until such time as all arrears of interest have been paid and one current coupon has been paid when due.
- (4) Transactions in bonds having coupons payable out of income, if and when earned, must take place on a flat basis. Any matured and unpaid income coupons must be attached. Income bonds that have been called for redemption must continue to be traded on a flat basis even after the call date has been published.
- (5) Transactions in bonds where an issuer has been subject to reorganization or capital adjustment that results in the bondholders receiving as a bonus or otherwise, certain stock or scrip, such transactions must be ex stock or scrip, unless otherwise stated at the time the trade is made. Such bonds must be traded on a flat basis until such time as all arrears have been paid and one current coupon has been paid when due, except where the *Corporation* has determined otherwise.
- (6) Accrued interest on trades in interest paying instruments that pay interest monthly and compound interest monthly must be zero, if the value date of the trade is an interest payment date. Otherwise, the accrued interest on

such trades must be calculated by multiplying the face amount of the instrument by the interest rate of the instrument and the number of days between the value date of the trade and the last interest payment date prior to the value date of the trade and dividing the result by twelve multiplied by the number of days between the next interest payment date after the value date of the trade and the last interest payment date prior to the value date of the trade.

- (7) For bonds or debentures that are only available in registered form, transactions made two days before a regular interest payment and up to three days before the closing of the transfer agent's books for the next interest payment, both days inclusive, will be on an "and interest" basis. The full amount of such interest payment must be deducted by the seller after the calculation of interest on the regular delivery basis, unless delivery is completed to the buyer by twelve o'clock noon (12 p.m.) at a transfer point on the date of the closing of the transfer agent's books for a regular interest payment.
- (8) For bonds or debentures that are only available in registered form, transactions from two days before the closing of the transfer agent's books up to and including three days before a regular interest payment must be "less interest" from settlement date to the regular interest payment date.
- (9) Where interest on a transaction involves an amount greater than that represented by the half-yearly coupon, interest is to be calculated on the basis of the full amount of the coupon less one or two days, as the case may be.

Rules 800.19,
800.20, 800.21 (a)
through (f), 800.22
and 800.23

4760. Fixed income trading units

- (1) This section applies to transactions between *Dealer Members* in or between certain Districts only and applies as follows:
 - (i) All transactions between *Dealer Members* in Ontario and Quebec Districts
 - (ii) All transactions between *Dealer Members* between the Ontario and Quebec Districts
 - (iii) All transactions between *Dealer Members* between the Ontario District and any other District

- (iv) All transactions between *Dealer Members* between the Quebec District and any other District.
- (2) A *Dealer Member* calling a market must trade *Trading Units* (defined in subsection (5)) if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one *Trading Unit* will be considered as an odd lot.
- (3) Any *Dealer Member* asking the size of a stated market must be prepared to buy or sell at least a *Trading Unit* at the price quoted if immediately requested to do so by the *Dealer Member* calling the market.
- (4) Any *Dealer Member* who has been requested to call a market has the option to trade an odd lot at the called market (if so requested) or to adjust his market to compensate for the smaller amount involved.
- (5) *Trading Units* are defined as follows:
 - (i) Government of Canada
 - (a) \$250,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of less than one year to maturity (or to the earliest call date, where the transaction is completed at a premium)
 - (b) \$100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of one year or longer but three years or less to maturity (or to the earliest call date, where the transaction is completed at a premium)
 - (c) \$100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term to maturity of longer than three years (where the bond is traded at a premium, the earliest call date shall be treated as the maturity date).
 - (ii) Province of Canada
 - (a) \$25,000 par value for bonds, debentures and other obligations of or guaranteed by a

province in Canada.

(iii) Other Bonds and Debentures

- (a) \$25,000 par value for bonds and non-convertible debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were not issued with attached stock warrants, rights or other attachments
- (b) \$5,000 par value for bonds, convertible debentures or debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were issued with attached stock warrants, rights or other appendages.

Rules 800.24,
800.25, 800.26,
800.27, 800.28,
800.29, 800.30,
800.32, 800.36 and
800.37

4761. Fixed income delivery

- (1) All trades are to be considered for *regular delivery* (defined in subsection (3)), unless otherwise agreed to in writing by the parties to a transaction at the time of the transaction.
- (2) For a deal involving the sale or purchase of more than one maturity, each maturity must be treated as a separate transaction. No contingent (all or none) dealings are permitted.
- (3) Regular delivery is defined as:
 - (i) Government of Canada
 - (a) The same day as the transaction date for Government of Canada Treasury Bills
 - (b) The second business day after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds (except Treasury Bills) having an unexpired term to maturity of three years or less (or to the earliest call date where a transaction is completed at a premium). Any accrued interest must be stopped on the second business day after the transaction date.

- (c) The third business day after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds having an unexpired term to maturity of longer than three years (where such a bond is traded at a premium the earliest call date shall be treated as the maturity date). Any accrued interest must be stopped on the third business day after the transaction date.
 - (ii) Province of Canada
 - (a) The third business day after the transaction date for all provincial bonds or debentures. Any accrued interest must be stopped on the third business day after the transaction date.
 - (iii) Other Bonds and Debentures
 - (a) The third business day after the transaction date for all municipal, corporation and other bonds or debentures (other than Government of Canada and Province of Canada treasury bills, bonds or debentures), other certificates of indebtedness including mortgage-backed securities. Any accrued interest must be stopped on the third business day after the transaction date.
- (4) New Issues delivery
 - (i) The regular delivery requirements above is not intended to interfere in any way with the common practice of transactions between *Dealer Members* in new issues during the period of primary distribution on an "accrued interest to delivery" basis. However, the regular delivery requirements will come into effect on the appropriate number of business days prior to the new issue being first available for physical delivery.
 - (ii) Where a new issue delivery is made against payment outside of the points fixed for the initial syndicate delivery of the issue, additional accrued interest must be charged from the delivery date at the initial syndicate delivery point(s) of the new issue, according to the length of time normally required for delivery to the locality in which the

delivery is made.

- (iii) For a mortgage-backed security transaction made during a commitment period, delivery must take place on or after the fifteenth calendar day of the month. For the purposes of this clause (iii), "*commitment period*" means the period from the third business day before month-end to the first business day on or before the eleventh calendar day of the following month, inclusive.

(5) Location

- (i) For any transaction between *Dealer Members* in the same municipality where physical delivery is to be made, the seller must complete the delivery before 4:30 p.m. on a business day.
- (ii) For any transaction between *Dealer Members* in different municipalities, the seller must complete the delivery on the buyer's terms, i.e. delivery is to be made by the seller free of banking and/or shipping charges to the buyer. Where bank drafts are drawn to arrive at their destination on a day that is not a business day, the seller is entitled to have charges paid up to the next business after the expected arrival of the bank drafts.

(6) Good delivery

- (i) Securities traded by *Dealer Members* must be good delivery securities. Therefore, they must be in the proper form so that their titles can be transferred by delivery to the buyer on settlement date. Proper form means the securities have the necessary endorsements, guarantees or both, and meet all legal and regulatory requirements for title transfer. The seller must obtain them and include them with the delivery.
- (ii) Good delivery securities may consist of bearer bonds or debentures or registered bonds or debentures
- (iii) For good delivery, securities that can be traded as actual certificates or as certificates of deposit, delivery must be made in the form of actual certificates, unless stated otherwise at the time of the transaction

- (iv) For good delivery, the bonds or debentures are to be of a maximum denomination of \$100,000 par value, unless agreed to otherwise by the buyer
- (v) For good delivery, if a Power of Attorney is necessary for the certificates, one Power of Attorney for each certificate is required, unless the buyer has agreed otherwise to accept an amalgamated Power of Attorney
- (vi) For good delivery, if definitive certificates are not available interim certificates may be used. However, once definitive certificates are available interim certificates may not be used, unless the *Dealer Members* agree otherwise.
- (vii) Good delivery securities may consist of the following, provided that it is acceptable to the transfer agent:
 - (a) Bonds or debentures registered in the name of an individual, properly endorsed and with endorsement guaranteed by a *Dealer Member* in good standing of the *Corporation* or a *recognized stock exchange*, or by a chartered bank or *qualified Canadian trust company*
 - (b) Bonds or debentures registered in the name of a *Dealer Member* or nominee of a *Dealer Member* and properly endorsed
 - (c) Bonds or debentures registered in the name of a member of a recognized stock exchange and properly endorsed
 - (d) Bonds or debentures registered in the name of a chartered bank or *qualified Canadian trust company* or the nominee of a chartered bank or qualified trust company and properly endorsed.
- (7) Not good delivery
 - (i) A mutilated or torn certificate or coupon unless acceptable to the receiving *Dealer Member*
 - (ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt
 - (iii) A certificate signed by a Trustee or Administrator

unless accompanied by sufficient evidence of authority to sign

- (iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed Power of Attorney to transfer attached. (One Power of Attorney for each certificate or an amalgamated Power of Attorney if acceptable to receiving broker or dealer)
 - (v) A certificate which has been altered or erased (other than by the Transfer Agent) whether or not such alteration or erasure has been guaranteed
 - (vi) A certificate on which the assignment and/or substitute attorney has been altered or erased
 - (vii) A certificate with the next maturing coupon or subsequent coupons detached unless where so traded or where a certificate cheque (if for \$1,000 or more) payable to the receiving *Dealer Member*, dated no later than the date of delivery and for the amount of the coupon(s) missing, is attached to the certificate in question
 - (viii) A bond or debenture, registered as to principal only, which after being transferred to Bearer, does not bear the stamp and signature of the Trustee
 - (ix) A registered bond or debenture unless it bears a certificate that provincial tax has been paid where applicable
 - (x) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker.
- (8) Prior to Notice of Call
- (i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. (Date of notice means the date of the notice of call irrespective of the date of publication of such notice.) Called securities do not constitute good delivery unless the transaction is so designated at its inception.
 - (ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice shall

Rule 800.46	be completed on the terms of the original transaction. 4762. Fixed income redemption payment (1) A <i>Dealer Member</i> must not pay to a client regarding any maturity the redemption price or other amount due on redemption of such securities where the price or amount exceeds \$100,000, unless: (i) The <i>Dealer Member</i> has first received an amount equal to such price or other amount from the issuer or its agent by cheque certified by or accepted without qualification by a <i>chartered bank</i> or (ii) The <i>Dealer Member</i> has first received or is credited an amount equal to such price or other amount through the facilities of <i>CDS Clearing and Depository Services Inc.</i> or Depository Trust Company.
New	Part B.3 – Stocks 4763. Stock trading units (1) This section applies to transactions between <i>Dealer Members</i> in or between certain Districts only and applies as follows: (i) All transactions between <i>Dealer Members</i> in Ontario and Quebec Districts (ii) All transactions between <i>Dealer Members</i> between the Ontario and Quebec Districts (iii) All transactions between <i>Dealer Members</i> between the Ontario District and any other District (iv) All transactions between <i>Dealer Members</i> between the Quebec District and any other District. (2) A <i>Dealer Member</i> calling a market shall be obliged to trade <i>Trading Units</i> (defined in subsection (5)) if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one <i>Trading Unit</i> will be considered as an odd lot. (3) Any <i>Dealer Member</i> asking the size of a stated market must be prepared to buy or sell at least a <i>Trading Unit</i> (defined in subsection (5)) at the price quoted if immediately requested to do so by the <i>Dealer Member</i> calling the market.
Rule 800.19, 800.20, 800.21(g), 800.22 and 800.23	

Rule 800.24,
800.27(d), 1st
sentence, 800.30 1st
paragraph and (b),
800.32, 800.34,
800.36, 800.37,
800.40, 1st part of 1st
sentence, 800.41, 1st
part of 1st sentence
and some new
provisions

- (4) Any *Dealer Member* who has been requested to call a market has the option to trade an odd lot at the called market (if so requested) or to adjust his market to compensate for the smaller amount involved.
- (5) *Trading Units* are defined as follows:
 - (i) Common and preferred shares not listed on a *recognized exchange*
 - (a) In lots of 500 shares, if market price per share is below \$1
 - (b) In lots of 100 shares, if market price per share is at \$1 and below \$100
 - (c) In lots of 50 shares, if market price per share is at \$100 or above.

4764. Stock delivery

- (1) All trades are to be considered for *regular delivery* (defined in subsection (2)), unless otherwise agreed to in writing by the parties to a transaction at the time of the transaction.
- (2) *Regular delivery* is defined as:
 - (i) Exchange-listed shares
 - (a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.
 - (ii) Unlisted registered shares
 - (a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.
 - (b) For transactions between *Dealer Members* in shares that occur two full business days prior to the record date, the shares must be traded, ex dividend, ex rights, or ex payments.
 - (c) For transactions between *Dealer Members* in shares that are not ex dividend, ex rights, or ex payments at the time the transaction occurs and delivery is not completed prior to twelve o'clock noon (12 p.m.) at a transfer point on the date of the closing of the transfer

agent's books, the seller is responsible to the buyer for the payment of such dividends or payments, and delivery of such rights, as may be involved, on their due dates. For the purposes of this sub-clause (c), where the record date falls on a Saturday or other non-business day, the business day prior to the record date is to be treated as the effective record date.

(3) New issues delivery

- (i) The regular delivery requirements above are not intended to interfere in any way with the common practice of dealing in new issues during the period of primary distribution. However, the regular delivery requirements will come into effect on the appropriate number of business days prior to the new issue being first available for physical delivery.

(4) Location

- (i) For any transaction between *Dealer Members* in the same Municipality, delivery should be advised by 11:30 a.m. on the fourth business day after a transaction takes place.
- (ii) For any transaction between *Dealer Members* located in different municipalities, delivery should be received by the buyer by the expiration of the fourth business day after the transaction takes.

(5) Good delivery

- (i) Securities traded by *Dealer Members* must be good delivery securities. Therefore, they must be in the proper form so that their titles can be transferred by delivery to the buyer on settlement date. Proper form means the securities have the necessary endorsements, guarantees or both, and meet all legal and regulatory requirements for title transfer. The seller must obtain them and include them with the delivery.
- (ii) Certificates registered in the name of:
 - (a) An individual, must be endorsed by the registered holder in exactly the same manner as registered and the endorsement

- guaranteed by a *Dealer Member* or by a member of a *recognized stock exchange* or by a *chartered bank* or *qualified Canadian trust company*. Where the endorsement does not exactly correspond to the registration shown on the face of the certificate, a certification by a *Dealer Member*, a member of a *recognized stock exchange*, a *chartered bank* or a *qualified Canadian trust company* that the two signatures are the same person's is required;
- (b) A *Dealer Member* or a member of a *recognized stock exchange* or a nominee of either and duly endorsed;
 - (c) A *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or *qualified Canadian trust company* and duly endorsed by a *Dealer Member*;
 - (d) Any other manner providing it is properly endorsed and the endorsement is guaranteed by a *Dealer Member* or by a member of a *recognized stock exchange* or by a *chartered bank* or *qualified Canadian trust company*; and
- (iii) Certificates in board lot denominations (or less) as required by the exchange on which the stock is traded. Unlisted stocks should also be in denominations similar to listed stocks in the same category and price range.
- (6) Not good delivery
- (i) A mutilated or torn certificate or coupon unless acceptable to receiving broker or dealer;
 - (ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt;
 - (iii) A certificate signed by a Trustee or Administrator unless accompanied by sufficient evidence of authority to sign;
 - (iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed Power of Attorney to transfer attached. (One Power of Attorney for each certificate or an amalgamated Power of Attorney if

	acceptable to receiving broker or dealer); (v) A certificate that has been altered or erased (other than by the Transfer Agent) whether or not such alteration or erasure has been guaranteed; (vi) A certificate on which the assignment and/or substitute attorney has been altered or erased; (vii) A registered stock unless it bears a certificate that provincial tax has been paid where applicable; (viii) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker. (7) Prior to Notice of Call (i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. (Date of notice means the date of the notice of call irrespective of the date of publication of such notice.) Called securities do not constitute good delivery unless the transaction is so designated at its inception. (ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice must be completed on the terms of the original transaction.
Rule 800.45	4765. Stock dividend claims (1) No <i>Dealer Member</i> shall make a certificate claim for dividends against another <i>Dealer Member</i> if the amount of such claim would be \$5.00 or less.
New	Part B.4 – Buy-ins 4766. Buy-ins (1) Buy-ins must be made within the times, using the notices prescribed, and according to the <i>Corporation's</i> requirements. For the purposes of these clauses (i) through (v) a "regular delivery transaction" is deemed to have taken place once the <i>Dealer Members</i> involved have agreed on a price. (i) For transactions between <i>Dealer Members</i> in the same municipality, where the seller does not advise the buyer about the delivery by 11:30 a.m. on the
Rules 800.39, 800.40, 800.41, 800.42, 800.43 and 800.44	

fourth business day after a regular delivery transaction:

- (a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to the *Corporation* on that day, or any subsequent business day, prior to 3:30 p.m., of his or her intention to buy-in for cash on the second business day after the original notice.
 - (b) The notice is deemed to automatically renew itself from business day to business day from 11:30 a.m. until closing until the transaction is finally completed.
 - (c) Where the buy-in is not executed on the second business day after the original notice, the seller has the privilege of advising the buyer each subsequent day before 11:30 a.m. of his or her ability, and intention, to make either whole or partial delivery on that day.
- (ii) For transactions between *Dealer Members* in different municipalities, where delivery has not been received by the buyer at the expiration of four business days after the transaction takes place, on or after the fourth business day:
- (a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to the *Corporation* on that day by 12 p.m. (the seller's time) his or her intention to buy-in for cash on the third business day after the original notice.
 - (b) Where the seller has not advised the buyer in writing by 5 p.m. (the buyer's time) on the day after the original notice that the securities covered by the —buy-in have passed through his or her clearing and are in transit to the buyer, the buyer may proceed to execute the buy-in on the third business day after the original notice.
 - (c) The notice is deemed to automatically renew

	itself from business day to business day and the seller forfeits all rights to complete delivery other than the portion of the transaction that is in transit by the day following the receipt of the original notice. The buyer may at his or her option allow the seller to complete delivery of any remaining portion of the transaction. (iii) Any <i>Dealer Member</i> who is bought-in may demand evidence that a bona fide transaction has taken place involving the delivery of the bought-in securities. The <i>Dealer Member</i> who is bought-in has the right, to deliver such part of his or her commitment according to clauses (i) and (ii) and must complete any such delivery to the nearest \$1,000 par value, or stock <i>Trading Unit</i>. (iv) The <i>Corporation</i> has the authority to postpone the execution of a buy-in from day to day, and to combine buy-ins in the same security, and to decide any dispute arising from the execution of the buy-in, and its decision is final and binding. (v) When a buy-in has been completed the buyer must submit to the seller a statement of account showing: (a) As credits, the amount originally contracted for as payment for the securities, and (b) As debits, the amount paid on buy-in, the cost of the buyer's communication charges relative to the buy-in, and any bank or shipping charges incurred. Where there is a credit balance remaining, the buyer must pay this amount to the seller, and where there is a debit balance remaining, the seller must pay this amount to the buyer.
New	4767. – 4799. – Reserved
New	Part C – Account transfers
New	4800. Introduction (1) Part C of Rule 4800 describes the <i>Corporation's</i> requirements for transferring accounts between <i>Dealer</i>

Rule 2300.1	<i>Members to ensure these transfers are completed promptly.</i> 4801. Definitions (1) In this Rule: (i) “<i>account transfer</i>” means a client-account transfer, at the request of or with the authority of the client, from one <i>Dealer Member</i> to another <i>Dealer Member</i>. (ii) “<i>delivering Dealer Member</i>” means the <i>Dealer Member</i> from which the client account is being transferred. (iii) “<i>partial account</i>” means less than the total assets and balances in a client account held by a <i>delivering Dealer Member</i>. (iv) “<i>receiving Dealer Member</i>” means the <i>Dealer Member</i> to which the client account is being transferred. (v) “<i>recognized clearing depository</i>” means a <i>Corporation-recognized clearing corporation</i> or <i>depository</i>.
Rule 2300.2, 1 st paragraph, 2 nd sentence	4802. Transferring a full or partial account (1) A <i>Dealer Member</i> transferring a full or <i>partial account</i> must comply with this Rule.
Rule 2300.2, 1 st paragraph, 1 st sentence	4803. Transfer through a recognized depository (1) Whenever possible, a <i>Dealer Member</i> transferring a client account must transfer that account through a <i>recognized depository</i>.
Rule 2300.2, 2 nd and 3rd paragraphs	4804. Communications between Dealer Members (1) Communications between <i>Dealer Members</i> must take place by electronic delivery through <i>CDS’s account transfer facility</i>, unless both <i>Dealer Members</i> agree otherwise. (2) Each <i>Dealer Member</i> must pay its costs for delivering or receiving electronic communications done under Part C of Rule 4800. (3) A <i>Dealer Member</i> must select, implement, and maintain appropriate security measures to protect its electronically delivered communications. (4) <i>Dealer Member</i> acknowledgement and indemnification

	(i) a <i>Dealer Member</i> acknowledges that an electronically delivered communication it sends will be relied on by the <i>Dealer Member</i> receiving it. (ii) a <i>Dealer Member</i> must indemnify and save harmless other <i>Dealer Members</i> from any claims, losses, damages, liabilities or expenses the <i>other Dealer Members</i> suffer as a result of relying on its unauthorized, inaccurate, or incomplete electronic communication.
Rule 2300.3	4805. Receiving Dealer Member - responsibilities for documents (1) If a <i>receiving Dealer Member</i> receives a request from a client to accept an account, it must obtain written authorization from the client to transfer the account. (2) After the client gives written authorization to the <i>receiving Dealer Member</i>, the receiving <i>Dealer Member</i> must: (i) promptly send a request for transfer through CDS to the <i>delivering Dealer Member</i>, and (ii) keep the original written account transfer authorization form on file. (3) The <i>receiving Dealer Member</i> must ensure that the forms or documents required to transfer accounts are completed and available on the same day as the request for transfer is delivered.
Rule 2300.4	4806. Delivering Dealer Member - response to request for transfer (1) When it receives the request for transfer, the <i>delivering Dealer Member</i> must either: (i) deliver to the <i>receiving Dealer Member</i>, by the specified return date, the asset list for the client account being transferred; or (ii) reject the request for transfer if the client account information is unknown to the <i>delivering Dealer Member</i> or is incomplete or incorrect. (2) The return date in clause (1)(i) must be no later than two clearing days after the date of receipt of the request for transfer from the <i>delivering Dealer Member</i>.
Rule 2300.5	4807. Asset transfer

	(1) Within one clearing day after the specified return date the <i>delivering Dealer Member</i> must commence, or cause CDS's account transfer facility to implement automatically, the transfer of the assets through CDS. (2) Any assets that cannot be transferred through a <i>recognized depository</i> must be settled: (i) over the counter; (ii) by other standard industry practices; or (iii) by other appropriate means agreed between the <i>receiving Dealer Member</i> and the <i>delivering Dealer Member</i>. The time limits in subsection (1) apply.
Rule 2300.4	4808. Transfer impediment (1) If there is an impediment to the requested transfer of an account asset, the <i>delivering Dealer Member</i> must promptly notify the <i>receiving Dealer Member</i>, identifying the asset and the reason for the inability to deliver. (2) The <i>receiving Dealer Member</i> must get client instructions or directions concerning the asset, and deliver them to the <i>delivering Dealer Member</i> (3) The balance of the client's assets must be transferred according to this Rule.
Rule 2300.6	4809. Failure to settle (1) If the <i>delivering Dealer Member</i> fails to settle an asset transfer in a client account within 10 clearing days of receipt of the request for transfer, the <i>receiving Dealer Member</i> may complete the account transfer, at its option, by: (i) buying-in the unsettled position in accordance with section 4767; (ii) lending the security to the <i>delivering Dealer Member</i> through a <i>recognized depository</i> and simultaneously transferring the same security into the client account; or (iii) making other mutually agreed arrangements with the <i>delivering Dealer Member</i> so that the <i>account transfer</i> can be considered completed. (2) Any loan in clause (1)(ii) must be marked to market and

	the assets will be considered delivered to the <i>receiving Dealer Member</i> to settle the account transfer.
Rule 2300.7	4810. Non-certificated mutual funds (1) Non-certificated mutual fund securities are considered transferred when the <i>delivering Dealer Member</i> delivers to the <i>receiving Dealer Member</i>: (i) a completed mutual fund transfer form; and (ii) a completed and signed power of attorney; or (iii) by entry of transfer instructions in the electronic account transfer facility of FundSERV Inc.
Rule 2300.8	4811. Interest or dividend receipt balances (1) Interest or dividend receivable balances must be settled promptly between a <i>delivering Dealer Member</i> and <i>receiving Dealer Member</i>. Despite any failure to settle these balances, a <i>Dealer Member</i> must comply with the <i>account transfer</i> procedures in Part C of Rule 4800.
Rule 2300.5, 2 nd paragraph	4812. Margin (1) A <i>Dealer Member</i> must not accept an <i>account transfer</i> from another <i>Dealer Member</i> if the account has a margin deficiency. (2) Subsection (1) does not apply if at the <i>account transfer</i> time the <i>receiving Dealer Member</i> has sufficient funds or collateral to the client's credit available to cover the account's margin deficiency.
Rule 2300.9	4813. Responsibility for margining account (1) The <i>receiving Dealer Member</i> must assume the responsibility for margining all assets and money balances relating to the transferred account at the earlier of: (i) the date that the transfer of all assets and money balances is completed; and (ii) 20 clearing days after receipt by the <i>delivering Dealer Member</i> of the request for transfer.
Rule 2300.10	4814. Fees and charges (1) Before or at the time of <i>account transfer</i>, a <i>delivering Dealer Member</i> may deduct any fee or charge on the account in accordance with the <i>delivering Dealer</i>

Rule 2300.11 New	<i>Member's</i> current published fee and charge schedule. 4815. Corporation exemption (1) The <i>Corporation</i> may exempt a <i>Dealer Member</i> from the requirements of this Rule 4800 if the <i>Corporation</i> is satisfied that to do so would not prejudice the interests of the <i>Dealer Member</i>, its clients, or the public. (2) In granting an exemption under subsection (1), the <i>Corporation</i> may impose any terms and conditions it considers necessary. 4816. – 4899. – Reserved.
Repealed current rule	Proposed plain language rule
New New New	Rule 4900 – Other Internal Control Requirements 4901. Introduction (1) Rule 4900 sets out the following internal control requirements: (i) Derivative risk management <i>[Part A, Sections 4910 through 4914];</i> 4902. - 4909. - Reserved
New New Rule 2600, Statement 8 – Control Objective and Minimum required firm policies	Part A – Derivative risk management 4910. Introduction (1) A Dealer Member must have an independent risk management function to: (i) manage the risks resulting from its use of derivatives which include exchange and over-the-counter traded derivatives, (ii) ensure that the level of management that reports to the board (referred to as “senior management”) understands all risks, and (iii) ensure that its risk adjusted capital is calculated properly. 4911. Risk management process (1) A Dealer Member must have a risk management function with clear independence and authority to ensure risk limit

and procedures (4)(i)	policies are developed and transactions and positions are monitored for adherence to these policies. (2) A Dealer Member must have a risk management process to identify, measure, manage, and monitor risks associated with the use of derivatives. (3) The risk management process has two parts: (i) Management must be knowledgeable of the nature and risks of all derivative products used in treasury, proprietary, institutional and retail activities; and (ii) The Dealer Member must create written policies and procedures that clearly outline risk management guidance for derivatives activities. (4) A Dealer Member's financial accounting department must measure the Dealer Member's revenue components regularly and in sufficient detail to understand risk sources.
Rule 2600, Statement 8 - Minimum required firm policies and procedures (1)	4912. Role of board of directors (1) A Dealer Member's board of directors or equivalent management level must approve all significant risk management policies to ensure they are consistent with the Dealer Member's overall broader business strategies and appropriate for market conditions. (2) Senior management must report at least annually to the Dealer Member's board on a Dealer Member's risk exposure.
Rule 2600, Statement 8 - Minimum required firm policies and procedures (2)	4913. Role of senior management (1) A Dealer Member's senior management must ensure that for derivative products: (i) there are adequate written policies and procedures for processing, trading, monitoring and reporting cycles including: (a) clear responsibility lines for risk management; (b) an adequate system for measuring risk; (c) appropriate risk position limits; (d) effective internal controls; and (e) a comprehensive reporting process; (ii) if risk position limits are exceeded, there is a system to ensure that these excesses are approved only by authorized personnel and communicated to senior management;

	(iii) all appropriate approvals are obtained and adequate operational procedures and risk control systems are in place; (iv) appropriate risk control systems address market, credit, legal, operational, and liquidity risks; (v) derivatives activities are undertaken by a sufficient number of professionals with appropriate experience, skill levels, and certification; (vi) risk management procedures are regularly evaluated for appropriateness and soundness; (vii) it approves all standard and non-standard derivative product programs; and (viii) there is an accurate, complete, informative, and timely management information system. (ix) the risk management function monitors and reports risk metrics to appropriate senior management and to the Dealer Member's board of directors or equivalent management level.
Rule 2600, Statement 8 - Minimum required firm policies and procedures (3)	4914. Pricing (1) In addition to Rule 4690's requirements, "Pricing Securities", a Dealer Member must comply with the requirements below in pricing derivatives. (2) Derivatives positions must be marked to market at least daily. (3) A Dealer Member's independent risk management function must: (i) validate all pricing models, including computing market data or model inputs; (ii) review and approve pricing models and valuation systems used by front- and back-office personnel; and (iii) review and approve reconciliation procedures if different systems are used. (4) Valuations derived from models must be independently reviewed at least monthly.
New	4915. – 4999. – Reserved.