

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

HOUSEKEEPING AMENDMENTS TO THE FORM 1, PART II - REPORT ON COMPLIANCE FOR INSURANCE, SEGREGATION OF SECURITIES, AND GUARANTEE/GUARANTOR RELATIONSHIPS RELIED UPON TO REDUCE MARGIN REQUIREMENTS DURING THE YEAR

BLACK-LINE COMPARISON OF THE HOUSEKEEPING AMENDMENTS TO THE FORM 1, PART II REPORT ON COMPLIANCE

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance, segregation of securities, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year

To: <Dealer Member> ~~The Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF).~~

Purpose of this Agreed-upon Procedures Report

~~We have performed the following procedures in connection with the regulatory requirements for _____ Our report is solely for the purpose of providing _____ to maintain minimum insurance, segregate client securities, and maintain guarantee relationships as outlined in the IIROC Rules. Compliance with IIROC Rules with respect to _____ (Dealer Member) with information to assist the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF) in their assessment of the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance, the segregation of client securities, and maintaining guarantee/guarantor relationships is the responsibility of the management of the Dealer Member. Our responsibility is to perform the procedures requested by you for margin relief as outlined in the IIROC Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.~~

Responsibilities of the engaging party

The Dealer Member, IIROC and CIPF have acknowledged that the agreed-upon procedures, as required by IIROC, are appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Canadian Standard on Related Services (CSRS) 4400, Agreed-upon Procedures Engagements. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Dealer Member, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional ethics

[Free form text]

[Sample: In performing the Agreed-upon Procedures engagement, we complied with the relevant ethical requirements in the rules of professional conduct/code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies. We have also complied with the independence requirements that are relevant to assurance engagements in Canada.]

Procedures and findings

We have performed the procedures described below, which were agreed upon with the Dealer Member with respect to the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance, segregation of client securities, and maintaining guarantee/guarantor relationships for margin relief as outlined in the IIROC Rules listed in the Procedures and Findings section below.

- ~~1. We have read the Dealer Member's written internal control policies and procedures with respect to maintaining insurance coverage and segregation of client securities to determine whether such policies and procedures meet the minimum required under IIROC Rules in regards to establishing and maintaining adequate internal controls.~~
- ~~2. a) We obtained representation from appropriate senior management of the Dealer Member that the Dealer Member's internal control policies and procedures with respect to insurance and segregation of client securities meet the minimum required under IIROC Rules in regards to establishing and maintaining adequate internal controls and that they have been implemented.~~
~~b) We obtained written representation from appropriate senior management of the Dealer Member that the Dealer Member's guarantor agreements comply with the minimum requirements of section 5825 of the IIROC Rules.~~

Form 1, Part II (Continued)

3. ~~We read the Financial Institution Bond Form #14 (the FIB) insurance policy(s) to determine whether the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the IROC Rules.~~
4. ~~We requested and obtained confirmation from the Dealer Member's Insurance Broker(s) as at <period end date> as to the FIB coverage maintained with the Insurance Underwriter(s) including:~~
- | | |
|--|--|
| a) ~~clauses~~ | d) ~~name of insurer and insured~~ |
| b) ~~aggregate and single loss limits~~ | e) ~~claims made on the policy since last audit~~ |
| c) ~~deductible amounts~~ | f) ~~details of losses/claims outstanding~~ |
5. ~~We selected account statements for 10 clients. For each, we calculated the client net equity amount. We traced the client net equity amount to the Total Client Net Equity Report as at the audit date produced by the Dealer Member to check that the compilation of client net equity is in accordance with the notes and instructions to Schedule 10 of Form 1. We agreed total client net equity from the report to Schedule 10.~~
6. ~~We obtained a listing of all segregation locations used by the Dealer Member and determined that each location met the definition of "acceptable securities location" as defined in the general notes and definitions to Form 1.~~
7. ~~We selected a sample of 10 client account statements. For each we re-calculated the segregation requirements and compared the result to the Dealer Member's Segregation Report.~~
8. ~~We selected positions¹ reported as being undersegregated at various dates throughout the year and determined the date on which the undersegregation was corrected. We obtained explanations from the Dealer Member and reviewed them for reasonableness. Undersegregated positions not corrected in accordance with IROC Rules are reported below.~~
9. ~~We obtained the lists of hypothecated securities at <period end date> and compared a sample of securities to the Segregation Report to determine if there were securities used to secure call loans which should have been in segregation.~~
10. ~~We selected 10 securities positions from the Stock Record and Position Report (the SRP) to identify a customer holding a position. We compared the securities positions to the customers' statements to check whether the stock message properly reported whether the positions were held in segregation. We also selected a sample of segregated securities from customer accounts and traced those back to the SRP and to the Segregation Report.~~
11. ~~We obtained a list of guarantee relationships used by the Dealer Member to reduce the margin required during the year for monthly financial reporting purposes. We performed no procedures to verify the accuracy or completeness of this list.~~
12. ~~We selected a sample of 10 guarantee relationships used to reduce margin required during the year and performed the following procedures:~~
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|--|
| a) ~~Obtained written confirmation from the guarantor of the account(s) guaranteed; and that the guarantee was in place during the year ended <u> <year end date> </u>.~~ |
| b) ~~Compared the wording of the guarantee agreements to the minimum requirements of section 5825 of the IROC Rules.~~ |

~~As a result of applying the above procedures, there were no exceptions except as follows:~~

¹ ~~The sample selected must consist of the greater of: (i) 10 securities or, (ii) the total sample items selected by the auditor to support the audit opinion provided on the Statements of Form 1.~~

Form 1, Part II (Continued)

#	<u>Procedures</u>	<u>Findings [State the results of the procedures performed]</u>
(1)	<u>Obtain the written internal control policies and procedures of the Dealer Member, from management of the Dealer Member, and inspect whether they include internal controls regarding:</u> <u>(i) maintaining insurance coverage as required in Part C of IIROC Rule 4400,</u> <u>and</u> <u>(ii) segregation of client securities as required in Part A of IIROC Rule 4300.</u>	
(2)	<u>Obtain written representation from management of the Dealer Member that “the Dealer Member’s internal control policies and procedures regarding insurance and segregation of client securities meet the minimum requirements in Part A of IIROC Rule 4300 and Part C of IIROC Rule 4400 as at <period end date> and have been implemented.” The name and title of those of management who provided the written representation are to be reported in the findings.</u>	
(3)	<u>Obtain written representation from management of the Dealer Member that “the Dealer Member’s guarantee agreements include the minimum requirements in section 5825 of the IIROC Rules as at <period end date>.”</u>	
(4)	<u>Obtain the Financial Institution Bond Form #14 insurance policy (FIB) as at <period end date>, from management of the Dealer Member, and inspect whether the FIB:</u> <u>(i) clauses exist as per section 4456 of the IIROC Rules for:</u> <u>(a) Fidelity</u> <u>(b) On premises</u> <u>(c) In transit</u> <u>(d) Forgery or alteration</u> <u>(e) Securities</u> <u>(ii) includes the minimum coverage limits as per section 4457 or 4458 of the IIROC Rules.</u>	
(5)	<u>From a listing of all Dealer Member insurance brokers as at <period end date>, provided by management of the Dealer Member, confirm items (a) to (k) below for each insurance broker and report differences from details reported in the FIB and Form 1:</u> <u>(a) Insurance company name</u> <u>(b) Name of insured</u> <u>(c) FIB/registered mail</u> <u>(d) Expiry date</u> <u>(e) Coverage</u> <u>(f) Type of aggregate limit</u> <u>(g) Provision for full reinstatement</u> <u>(h) Premium</u> <u>(i) Clauses</u> <u>(j) Deductible</u> <u>(k) Losses and claims</u>	
(6)	<u>From a listing of all clients as at <period end date>, provided by management of the</u>	

Form 1, Part II (Continued)

	<u>Dealer Member, select 10¹ client account statements.</u> (i) <u>Calculate the client net equity amount as at <period end date> for each client statement selected in accordance with the notes and instructions to Schedule 10 of Form 1. Calculate the total value of the securities for each client selected using the bid/ask price, where applicable.</u> (ii) <u>Agree the calculated client net equity amount for each client statement in procedure (6)(i) to the Total Client Net Equity Report as at <period end date> , provided by management of the Dealer Member.</u> (iii) <u>Agree the total client net equity from the Total Client Net Equity Report as at <period end date> , provided by management of the Dealer Member, to Schedule 10 of Form 1.</u>	
(7)	<u>From a listing of all segregation locations as at <period end date> , provided by management of the Dealer Member, inspect that each segregation location meets the definition of “acceptable securities locations” as defined in the general notes and definitions to Form 1.</u>	
(8)	<u>From a listing of all clients as at <period end date> , provided by management of the Dealer Member, select 10 client account statements. For each client account statement selected:</u> (i) <u>Calculate the segregation requirements in accordance with Part A of IIROC Rule 4300.</u> (ii) <u>Agree the calculation in procedure (8)(i) to the Segregation Report as at <period end date> , provided by management of the Dealer Member.</u>	
(9)	<u>From the Undersegregation Reports , provided by management of the Dealer Member, select 10 security positions reported as being undersegregated at various dates throughout the year. For the selected 10 security positions, inspect that the undersegregation was corrected within the timelines required by Part A of IIROC Rule 4300.</u>	
(10)	<u>From the list of hypothecated securities as at <period end date> , provided by management of the Dealer Member, select 10 security positions and compare each security position to the Segregation Report as at <period end date> , provided by management of the Dealer Member, and inspect that security positions held in segregation were not used to secure call loans.</u>	
(11)	<u>From the Stock Record and Position Report (SRP) as at <period end date> , provided by management of the Dealer Member, select 10 security positions to identify a customer holding that position. For each client , compare the client’s holding per the SRP to the individual customer account statement and inspect that the stock message on the customer account statement appropriately indicates whether that the security position was held in segregation.</u> <u>Select 10 segregated securities from customer account statements as at <period end date> , provided by management of the Dealer Member, and trace each segregated security to the SRP as at <period end date> and to the Segregation Report as at <period end date> , provided by management of the Dealer Member to inspect that the security position was held in segregation.</u>	
(12)	<u>Obtain a list of guarantee relationships, provided by management of the Dealer</u>	

¹ Samples are to be selected statistically, haphazardly or randomly.

Form 1, Part II (Continued)

<u>Member. From the listing obtained, select 10 guarantee relationships used by the Dealer Member to reduce the margin required during the period reported on the Form 1, for monthly financial reporting purposes. For each of the 10 guarantee relationships:</u> (i) <u>Obtain written confirmation of the guarantee relationship from the guarantor of the account(s) guaranteed and that the guarantee was in place as at</u> <u><period end date>.</u> (ii) <u>Compare the wording of the guarantee agreements to the requirements in section 5825 of the IIROC Rules.</u>	
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~~These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Dealer Member's insurance coverage, segregation of client securities, maintenance of guarantee relationships, or internal control policies and procedures. This report is for use solely by IIROC and CIPF to assist in their assessment of the Dealer Member's compliance with the requirements regarding maintaining minimum insurance, segregating client securities, and maintaining guarantee relationships as outlined in the IIROC Rules and not for any other purpose.~~

[Optional: Restriction on Use]

[Free form text]

[Sample: This Agreed-upon Procedures Report is intended solely for the information and use of the Dealer Member, IIROC and CIPF and is not intended to be and should not be used by other parties.]

_____ Auditing firm	_____ Date
_____ Signature	_____ Place of issue

[Optional: Additional information]