Proposed amendments to CIRO Rules have been published for comments under CIRO Bulletin 24-0288 *Enhanced Cost Reporting – Proposed Rule Amendments* and are not subject to this consultation. We show how these proposed amendments, presented in grey boxes, will be brought into the DC Rule 3800 if approved in their current state, for awareness and context only.

Proposed amendments to CIRO Rules have been published for comments under CIRO Bulletin 24-0067 *Fully paid securities lending and financing arrangements.* We show how these proposed amendments, presented in grey boxes, will be brought into the DC Rules series 4000, if approved in their current state, for awareness and context only.

RULE 1100 | APPLICATION AND INTERPRETATION

1101. Introduction

(1) Rule 1100 sets out general rules of application and interpretation that apply to the *Corporation requirements*, and certain specific interpretative provisions.

1102. General application

(1) *Corporation requirements* apply to *Dealer Members* and, if the context is appropriate, their *Approved Persons* and *employees*.

(2) Certain requirements within these *Rules* also apply to all *Regulated Persons* other than those referred to in subsection 1102(1). Specific reference is made to *Regulated Persons* where a requirement is applicable to all *Regulated Persons*.

(3) In the event a *Dealer Member* is registered under *securities laws* as a mutual fund dealer and an investment dealer, the *Dealer Member* and its *Approved Persons* are exempt from *Corporation requirements* that are only applicable to mutual fund dealers, provided they comply with the corresponding *Corporation requirements* that are applicable to investment dealers.

(4) A *Mutual Fund Dealer Member* is prohibited from:

(i) offering its clients:

(a) a derivatives account,

(b) a discretionary account,

(c) a managed account,

(d) a margin account, except where it is offered in accordance with subsection 5112(2), or

(e) an order execution only account,

(ii) underwriting new issue distributions,

(iii) borrowing fully paid *securities* from clients,

(iv) issuing *research reports*, and

(v) using clients' *free credit balances*, except where they are used in accordance with subsection 4382(2).

(5) A *Mutual Fund Dealer Member* or its *Approved Persons* shall not, directly or indirectly, engage in any *securities and derivatives related business* except in accordance with the following:

(i) all such *securities and derivatives related business* is carried on for the account of the *Mutual Fund Dealer Member*, through the facilities of the *Mutual Fund Dealer Member* (except as expressly provided for in these *Rules*) and in accordance with these *Rules*, other than:

(a) such business as it relates solely to trading in deposit instruments conducted by any *Approved Person* not on account of the *Mutual Fund Dealer Member* and,

(b) such business conducted by an *Approved Person* as an employee of a *chartered bank* and in accordance with the Bank Act (Canada) and the regulations

thereunder, or as an employee of a credit union or caisse populaire and in accordance with applicable legislation governing such credit union or caisse populaire, and in each case, in accordance with applicable *securities laws*.

(ii) the relationship between the *Mutual Fund Dealer Member* and any person conducting *securities and derivatives related business* on account of the *Mutual Fund Dealer Member* is that of:

(a) an employer and employee, in compliance with section 2551,

(b) a principal and agent, in compliance with Rule 2300 and section 2551, or

(c) an *introducing broker* and *carrying broker*, in compliance with Part A of Rule 2400.

(iii) the trade name under which such *securities and derivatives related business* is conducted is in accordance with Part E of Rule 2200.

1103. General interpretation

(1) References to:

(i) a *Dealer Member* include its *Approved Persons* and *employees*, if the context is appropriate,

(ii) a *Dealer Member's* board of directors include a *Dealer Member's* equivalent governance body for a *Dealer Member* that is not a corporation,

(iii) a corporation, as a type of entity to which the *Corporation requirements* apply, includes unincorporated entities if the context is appropriate, and

(iv) provinces include all provinces and territories of Canada.

(2) If the context requires, words in the singular may include the plural and words in the plural may include the singular.

(3) All times referred to in the *Corporation requirements* are Eastern Standard Time, or Eastern Daylight Savings Time when in effect, unless stated otherwise.

(4) In the event of any dispute as to the intent or meaning of any provisions within the *Corporation requirements*, the interpretation of the *Board* is final, subject to any review or appeal procedures that may be available.

1201. Definitions

(1) Some terms used throughout the *Corporation requirements* are defined in subsection 1201(2). Additional terms are set out in the *Corporation* General By-Law No. 1, and Form 1. Terms that are used only in a single Rule are defined in that Rule.

Any term not defined in subsection 1201(2), in *Corporation* General By-Law No. 1, Form 1 or in a specific Rule, which is defined in *securities laws*, has the same meaning as provided for in *securities laws*.

When a prescribed or adopted policy defines a term that the *Corporation requirements* also defines, the definition contained in the policy prevails to the extent of any inconsistency, when interpreting that policy.

(2) The following terms have the meanings set out when used in the *Corporation requirements:*

"acceptable clearing corporation" (*chambre de compensation agréée*)	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable counterparty" (*contrepartie agréée*)	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable exchange" (*bourse agréée*)	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable institution" *(institution agréée)*	The same meaning as set out in Form 1, General Notes and Definitions.
...	...
"acceptable securities location" (*lieu agréé de dépôt de titres*)	The same meaning as set out in Form 1, General Notes and Definitions.
...	...
"approved ombudsman service" *(service d'ombudsman approuvé)*	An ombudsman service approved by the *Board* in accordance with subsection 9503(1).
...	...
"designated rating organization" (*agence de notation désignée*)	The same meaning as set out in Form 1, General Notes and Definitions.
...	...
"early warning excess" (*excédent au titre du signal précurseur*)	The same meaning as set out in Form 1, Statement C.

"early warning reserve" (*réserve au titre du signal précurseur*)	The same meaning as set out in Form 1, Statement C.
...	...
"introducing broker" (*remisier*)	A *Dealer Member* that introduces its client accounts to one or more *carrying brokers*, in accordance with the requirements set out in Rule 2400.
...	...
"market value" *(valeur marchande)*	(i) For the purposes of the monthly, quarterly, and annual reporting for *investment products*: (a) quoted on an active market, the published price quotation using: (I) for listed *securities*, the last bid price of a long *security* and, correspondingly, the last ask price of a short *security*, as shown on a consolidated pricing list or *marketplace* quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, (II) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date, (III) for all other unlisted *securities* (including unlisted *debt securities*) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of *debt securities*, based on a reasonable yield rate, (IV) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the *security* to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date, (V) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in paragraph (i)(a)(IV) of this definition and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and (VI) for money market repurchases with borrower call features, the borrower call price, (VII) for *listed derivatives*, the market value or settlement price on the relevant date or last trading day prior to

	the relevant date, (VIII) for *over-the-counter derivatives*, a value determined as reasonable by considering: (A) the market value or settlement price of the equivalent *listed derivative*, if available; and (B) values from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, and after making any adjustments considered by the *Dealer Member* to be necessary to accurately reflect the market value, (b) where a reliable price cannot be determined: (I) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the *investment product*, either directly or indirectly, or (II) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or (III) where insufficient recent information is available or there is a wide range of possible values and *position cost* (defined in subsection 3802(1)) represents the best value estimate within that range: (A) *position cost,* and (B) where disclosure of market value information in a client report or account statement is required, the *Dealer Member* must include the following notification or a notification that is substantially similar: "There is no active market for this [specify the *investment product*] so we have estimated its market value." (c) where a value cannot be reliably determined under subclauses (i)(a) and (i)(b) of this definition: (I) no value shall be reported, and (II) where disclosure of market value information on a client report or account statement is required, the *Dealer Member* must include the following notification or a notification that is substantially similar: "Market value not determinable." (ii) For the purposes of the daily and intra-day reporting for *investment products*: (a) that are quoted on an active market, the value determined according to subclause (i)(a) of this definition,

	(b) where a reliable price cannot be determined and: (I) the position has been recently valued in accordance with the *Dealer Member*'s valuation policies and procedures, the last value calculated for the position, or (II) the position has not been recently valued, the value and, if applicable, disclosure determined according to subclause (i)(b) of this definition, (c) where a value cannot be reliably determined under subclauses (ii)(a) and (ii)(b) above, the value and, if applicable, disclosure determined according to subclause (i)(c) of this definition.
A similar proposal to replace the defined term "cost" with "position cost" in every occurrence within the definition of "market value" has also been made in CIRO Bulletin 24-0288.	
...	...
"monthly financial report" *(rapport financier mensuel)*	A subset of Form 1 statements and schedules that must be completed by the *Dealer Member* and filed with the *Corporation* on a monthly basis.
...	...
"regulated entity" (*entité réglementée*)	The same meaning as set out in Form 1, General Notes and Definitions.
...	...
"risk adjusted capital" (*capital régularisé en fonction du risque*)	The capital level maintained by a *Dealer Member*, calculated in accordance with Form 1.
...	...
"total margin required" (*marge obligatoire totale*)	The same meaning as set out in Form 1, Statement B.
...	...

1202. – 1299. Reserved.

[...]

RULE 2400 | ACCEPTABLE BACK OFFICE AND SERVICE ARRANGEMENTS

2401. Introduction

(1) In order to manage back office expenses, *Dealer Member*s may enter into arrangements that involve back office service sharing with another organization. Services shared may include any combination of: trade execution, trade clearing and settlement, trade financing, trade related cash and *security* custody and trade related *records*. In some cases, before an arrangement can commence, the parties must agree to specific *Corporation* arrangement conditions, including obtaining *Corporation* approval of the arrangement. *Dealer Members* may also enter into outsourcing arrangements for business functions, processes and other services that are not part of their *securities and derivatives related business*.

(2) Sections 2401 through 2490 set out the specific *Corporation requirements* for a number of arrangements that a *Dealer Member* may enter into and is organized as follows:

Part A – Requirements for acceptable arrangements between two *Dealer Member*s including:

- Part A.1 – General requirements
  [sections 2403 through 2409]
- Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements
  [section 2410]
- Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements
  [section 2415]
- Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements
  [section 2420]
- Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements
  [section 2425]
- Part A.6 – Specific requirements for Type 5 introducing broker / carrying broker arrangements between *Mutual Fund Dealer Members*
  [section 2430]

Part B – Requirements for acceptable arrangement between a *Dealer Member* and a foreign *affiliate* dealer

[sections 2435 and 2436]

Part C – Permitted arrangements that are not considered to be introducing broker / carrying broker arrangements

[sections 2460 and 2461]

Part D – Prohibited back office sharing arrangements

[section 2480]

Part E – Service arrangements

[section 2490]

2402. Definitions

(1) The following terms have the meaning set out below when used in sections 2402 through 2490:

"clearing arrangement" (accord de compensation)	An arrangement entered into between two dealers under which all of the following services are provided by one dealer ("clearing broker") to the other dealer for one or more lines of business: (i) trade execution, (ii) trade settlement, and (iii) client account bookkeeping. Trade financing or account financing, custody of client cash and custody of client *security* positions services must not be provided as part of this arrangement.
"introducing broker / carrying broker arrangement" (accord entre un remisier et un courtier chargé de comptes)	An arrangement entered into between two dealers under which all of the following services are provided by one dealer, the *carrying broker*, to the other dealer, the *introducing broker*, for one or more lines of business: (i) trade settlement, (ii) custody of client cash, (iii) custody of client *security* positions, and (iv) client account bookkeeping. Trade execution and trade financing or account financing services may or may not be provided as part of this arrangement.
"service arrangement" (*accord de service*)	An arrangement entered into between a *Dealer Member* or *Approved Person*, and any other *person*, including another *Dealer Member* or *Approved Person,* to provide services that do not: (i) constitute *securities and derivatives related business,* or (ii) include duties or responsibilities that are required to be performed under *Corporation requirements* or *securities laws* by the *Dealer Member* or *Approved Person* that is receiving the services.

PART A - ARRANGEMENTS BETWEEN TWO DEALER MEMBERS – GENERAL REQUIREMENTS

PART A.1 - GENERAL REQUIREMENTS

2403. Arrangements that may be executed

(1) An *Investment Dealer Member* that wants to become an *introducing broker* may enter into one of the following *introducing broker / carrying broker arrangements* with another *Investment Dealer Member*:

(i) a Type 1 or 2 *introducing broker / carrying broker arrangement* for all of its *Dealer Member related activities*, or

(ii) a Type 3 or 4 *introducing broker / carrying broker arrangement* for one or more of its *Dealer Member related activities* business lines.

(2) A *Mutual Fund Dealer Member* that wants to become an *introducing broker* may enter into one of the following *introducing broker* / *carrying broker arrangement*s:

(i) a Type 1 or 2 *introducing broker / carrying broker arrangement* with an *Investment Dealer Member* for all its *Dealer Member related activities*,

(ii) a Type 3 or 4 *introducing broker / carrying broker arrangement* with an *Investment Dealer Member* for one or more of its *Dealer Member related activities* business lines, or

(iii) a Type 5 *introducing broker / carrying broker arrangement* with a *Mutual Fund Dealer Member* for one or more of its *Dealer Member related activities* business lines.

(3) An *Investment Dealer Member* may carry accounts for a *Mutual Fund Dealer Member* if the *introducing broker / carrying broker arrangement* satisfies the following requirements:

(i) For activities performed by the *carrying broker* on the *introducing broker's* behalf:

(a) the *carrying broker* will be subject to and must comply with the applicable rule requirements for *Investment Dealer Members* within the *Corporation requirements*,

(b) the *carrying broker* must perform these activities in a manner that does not interfere with the *introducing broker's* ability to meet its compliance obligations under sub-clause 2403(3)(ii)(a), and

(c) both the *introducing broker* and the *carrying broker* retain joint responsibility for:

(I) the proper performance of the activities, and

(II) compliance with the applicable rules.

(ii) For activities other than those performed by the *carrying broker* on the *introducing broker's* behalf:

(a) the *introducing broker* will be subject to and must comply with the applicable rule requirements for *Mutual Fund Dealer Members* in the *Corporation requirements*,

(b) the *introducing broker* must perform these activities in a manner that does not interfere with the *carrying broker's* ability to meet its compliance obligations under sub-clause 2403(3)(i)(a), and

(c) the *introducing broker* retains sole responsibility for:

(I) the proper performance of the activities, and

(II) compliance with the applicable rules.

2404. Additional conditions that apply to an introducing broker under a Type 1 introducing broker / carrying broker arrangement

(1) A *Dealer Member* that is an *introducing broker* under a Type 1 *introducing broker / carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any additional *introducing broker* / *carrying broker arrangements* with another *Dealer Member*,

(ii) must not self-clear any part of its *Dealer Member related activities*, and

(iii) must use its *carrying broker's* facilities for its principal trading, settlement, and *securities* custody.

2405. Additional conditions that apply to an introducing broker under a Type 2 introducing broker / carrying broker arrangement

(1) A *Dealer Member* that is an *introducing broker* under a Type 2 *introducing broker / carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any additional *introducing broker* / *carrying broker arrangements* with another *Dealer Member*,

(ii) must not self-clear any part of its *Dealer Member related activities*, and

(iii) may use brokers other than its *carrying broker* for its principal trading, settlement, and *securities* custody.

2406. Additional conditions that apply to an introducing broker under either a Type 3 or 4 introducing broker / carrying broker arrangement

(1) A *Dealer Member* that is an *introducing broker* under a Type 3 or 4 *introducing broker / carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any Type 1 or 2 *introducing broker / carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,

(ii) may, where a business case can be made, enter into additional Type 3, 4 or 5 *introducing broker / carrying broker arrangements* ,

(iii) may self-clear any part of its *Dealer Member related activities* business lines, and

(iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and *securities* custody.

2407. Additional conditions that apply to an introducing broker under a Type 5 introducing broker / carrying broker arrangement

(1) A *Mutual Fund Dealer Member* that is an *introducing broker* under a Type 5 *introducing broker / carrying broker arrangement* with another *Mutual Fund Dealer Member*:

(i) must not enter into any Type 1 or Type 2 *introducing broker / carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,

(ii) may, where a business case can be made, enter into additional Type 3, 4 or 5 *introducing broker / carrying broker arrangements* ,

(iii) may self-clear any part of its *Dealer Member related activities* business lines, and

(iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and *securities* custody.

2408. Introducing/carrying broker arrangement exemption

(1) Where the *Dealer Member* provides a reasonable business case, the *Corporation* may grant the *Dealer Member* an exemption from one or more of the requirements in sections 2403 through 2407.

(2) The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member*'s clients, the public or the *Dealer Member*.

(3) In granting such an exemption under subsection 2408(1), the *Corporation* may impose any terms and conditions it considers necessary.

2409. Requirement for an agreement

(1) A *Dealer Member* that is an *introducing broker* may enter into an arrangement permitted in sections 2403 through 2407 with another *Dealer Member* if both parties enter into a written *introducing broker* / *carrying broker* agreement:

(i) in a form acceptable to the *Corporation*,

(ii) that specifies the type of arrangement being entered into as a Type 1, 2, 3, 4 or 5 *introducing broker / carrying broker arrangement*,

(iii) whose terms comply with the requirements of Rule 2400 that apply to the type of arrangement being entered into, and

(iv) which is approved by the *Corporation* in advance of it coming into effect.

PART A.2 – SPECIFIC REQUIREMENTS FOR TYPE 1 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2410. Type 1 introducing broker / carrying broker arrangement – requirements

The parties to a Type 1 *introducing broker* / *carrying broker arrangement* between two *Dealer Members* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $75,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate *security* deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report*:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2410(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account, the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*,

and

(b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) To ensure ongoing disclosure of the *introducing broker* / *carrying broker* relationship to clients, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

(17) Compliance with non-financial requirements

(i) The *introducing broker* and the *carrying broker* are jointly and severally responsible for compliance with all non-financial *Corporation requirements* for each account the *introducing broker* introduces to the *carrying broker* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) With the *carrying broker's* advance approval, the *introducing broker* may accept a cheque in the *carrying broker's* name from a client whose account is carried by the *carrying broker* and:

(a) deliver it to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*, or

(b) arrange for the *carrying broker* to pick it up on the day it is received by the *introducing broker* or the next *business day*.

(iii) A client may send a cheque directly to the *carrying broker*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2411. – 2414. Reserved.

PART A.3 - SPECIFIC REQUIREMENTS FOR TYPE 2 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2415. Type 2 introducing broker / carrying broker arrangement – requirements

The parties to a Type 2 *introducing broker* / *carrying broker arrangement* between two *Dealer Members* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2415(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate *security* deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report*:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2415(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2415(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*, and

(b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(13)(i)(a).

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2415(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) The *introducing broker* may accept a cheque from a client in the name of the *introducing broker* or *carrying broker*, provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2416. – 2419. Reserved.

PART A.4 - SPECIFIC REQUIREMENTS FOR TYPE 3 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2420. Type 3 introducing broker/carrying arrangement – requirements

The parties to a Type 3 *introducing broker* / *carrying broker arrangement* between two *Dealer Members* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2420(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and *monthly financial report* all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and *monthly financial report* one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate *security* deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2420(4), and

(b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2420(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457 and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and

roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outline the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2420(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2421. – 2424. Reserved.

PART A.5 – SPECIFIC REQUIREMENTS FOR TYPE 4 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2425. Type 4 introducing broker / carrying broker arrangement – requirements

The parties to a Type 4 *introducing broker* / *carrying broker arrangement* between two *Dealer Members* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2425(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and *monthly financial report* one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *introducing broker* must meet financing requirements for client accounts it introduces to the *carrying broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate *security* deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2425(4), and

(b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2425(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *introducing broker* must segregate free credits for client accounts it introduces to the *carrying broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* or the *introducing broker* itself, may be party to any margin agreements and *guarantee* documents.

(ii) Where the margin agreements or *guarantee* documents are only executed between the *introducing broker* and the client, the *introducing broker* / *carrying broker* agreement must provide that the *carrying broker* may protect its interest in unpaid *securities* of the *introducing broker* when the *introducing broker* becomes insolvent, bankrupt, or ceases to be a *Dealer Member*.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents,

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other

documents, the annual disclosure under paragraph 2425(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2426. – 2429. Reserved.

PART A.6 - SPECIFIC REQUIREMENTS FOR A TYPE 5 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS BETWEEN MUTUAL FUND DEALER MEMBERS

2430. Type 5 Mutual Fund Dealer Member introducing broker / carrying broker arrangement – requirements

The parties to a Type 5 *introducing broker* / *carrying broker arrangement* between two *Mutual Fund Dealer Members* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *carrying broker* must maintain at all times minimum capital of $200,000 for the purposes of calculating *risk adjusted capital*.

(ii) The *introducing broker* must maintain at all times the minimum capital requirements of subsection 4111(3) for a Level 1, 2, 3 or 4 Dealer for the purposes of calculating *risk adjusted capital*.

(2) Reporting of client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 3 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(3) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

(4) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(5) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate *security* deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.

(ii) The *introducing broker* must:

(a) report the deposits provided to the *carrying broker* as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report*.

(6) Segregating client securities

(i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.

(ii) A Level 4 Dealer *introducing broker* may hold *securities* for the accounts of clients to the extent such functions are not part of the services to be provided by the *carrying broker*.

(7) Segregating client cash

(i) The *carrying broker* must segregate cash for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation of client cash by a *Mutual Fund Dealer Member.*

(ii) The *carrying broker* must maintain in its name any trust accounts established for holding client cash received from clients introduced by the *introducing broker*.

(iii) A Level 3 or 4 Dealer *introducing broker* may hold cash for the accounts of clients to the extent such functions are not part of the services to be provided by the *carrying broker* and the cash is held in trust accounts in accordance with *Corporation requirements.*

(8) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(9) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and

(c) maintain adequate insurance for registered mail specified under section 4455.

(10) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*, and

(b) for a Level 1 Dealer *introducing broker*, obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2430(10)(i)(a), and

(c) for a Level 2 Dealer *introducing broker*, include an explanation that all client cheques shall be payable to the issuer or *carrying broker*, as applicable.

(11) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2430(11)(i)(b)(II) is not required.

(ii) Where the *introducing broker* is a Level 1 Dealer, the *introducing broker* and *carrying broker* must both show their names and roles on all *client communications*, advertisements and *sales communications* sent by either the *introducing broker* or *carrying broker* to clients introduced to the *carrying broker* by the *introducing broker*. The name and role of the *carrying broker* must appear in at least equal size to that of the *introducing broker*.

(12) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

(13) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, a Level 1 Dealer *introducing broker* and its *carrying broker* are jointly and severally responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.

(ii) For each account it introduces to the *carrying broker*, a Level 2, 3 or 4 Dealer *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.

(iii) The *carrying broker* is responsible for compliance with respect to the functions it agrees to perform under the *introducing broker / carrying broker arrangement* for a Level 2, 3 or 4 Dealer *introducing broker.*

(14) Handling client cash

(i) A Level 1 and 2 Dealer *introducing broker* must not accept or handle client funds in the form of money.

(ii) A Level 2 Dealer *introducing broker* may accept a cheque from a client in the name of the *carrying broker* or issuer, provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* or issuer on the day it is received by the Level 2 Dealer *introducing broker* or the next *business day*.

(iii) A Level 3 or 4 Dealer *introducing broker* may accept or handle client funds in the form of money.

(iv) A Level 3 or 4 Dealer *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

2431. – 2434. Reserved.

PART B - ARRANGEMENTS BETWEEN A DEALER MEMBER AND A FOREIGN AFFILIATE DEALER

2435. Arrangements that may be executed with a foreign affiliate

(1) A *Dealer Member* may carry the client accounts of its foreign *affiliate* dealer if:

(i) the *Dealer Member* enters into an *introducing broker* / *carrying broker* agreement type that is permissible pursuant to sections 2403 through 2430 to be entered into between two *Dealer Members*,

(ii) the *Dealer Member* complies with the applicable conditions and requirements that apply to *introducing broker* / *carrying broker* agreement type set out in sections 2403 through 2425, including the requirement to enter into a written agreement,

(iii) the written agreement is:

(a) in a form acceptable to the *Corporation*,

(b) specifies the type of arrangement being entered into is a Type 1, 2, 3, 4 or 5 *introducing broker / carrying broker* arrangement,

(c) includes terms that comply with the requirements of Rule 2400 that apply to the type of arrangement being entered into, and

(d) approved by the *Corporation* in advance of it coming into effect,

and,

(iv) the *Dealer Member* complies with the additional conditions set out in section 2436.

2436. Additional conditions that apply to an introducing broker / carrying broker arrangement involving a foreign affiliate dealer

The parties to an *introducing broker* / *carrying broker arrangement* between a *Dealer Member* and its foreign *affiliate* dealer must comply with the following conditions and requirements:

(1) Annual disclosure requirement

(i) The foreign *affiliate*, at least annually, must provide written disclosure in a form satisfactory to the *Corporation*, to each of its clients whose accounts are carried by the *Dealer Member* outlining:

(a) the relationship between the *Dealer Member* and its foreign *affiliate*,

(b) the relationship between the *Dealer Member* and the foreign *affiliate's* client, and

(c) any *Investor Protection Fund* coverage limitations on those client accounts.

(2) Foreign jurisdiction approval

(i) The *Dealer Member* must provide written approval of the arrangement between the *Dealer Member* and its foreign *affiliate* from the foreign *affiliate*'s regulatory authority.

(3) Responsibility for compliance

(i) The *Dealer Member's* foreign *affiliate* is not required to comply with *Corporation requirements* solely because of the arrangement.

(4) Reporting balances

(i) When calculating *risk adjusted capital* the *Dealer Member* must report on Statement A and Schedule 3 or Schedule 4, as applicable, of Form 1 and the *monthly financial report* one balance owing to or from its foreign *affiliate* representing the accounts of the clients it carries on behalf of its foreign *affiliate*.

(5) Segregating securities

(i) The *Dealer Member* must *segregate securities* it holds for its foreign *affiliate*'s clients in accordance with *Corporation requirements* relating to *segregation*.

(6) Insurance

(i) The *Dealer Member* must include all accounts introduced to it by its foreign *affiliate* when calculating client net equity for minimum Financial Institution Bond coverage under section 4457.

2437. – 2459. Reserved.

PART C – PERMITTED ARRANGEMENTS THAT ARE NOT CONSIDERED TO BE INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2460. Certain arrangements executed with a Canadian financial institution affiliate

(1) A *Dealer Member's* arrangement under which employees of its *affiliate* handle *securities* clearing and settlement, maintain *records*, or perform operational functions is not considered an *introducing / carrying broker arrangement* for the purposes of Rule 2400 provided the custodial functions are handled on a segregated basis according to *Corporation requirements* and the *affiliate* is:

(i) a *chartered bank*,

(ii) an insurance company governed by federal or provincial insurance legislation, or

(iii) a loan or trust company governed by federal or provincial loan and trust company legislation.

2461. Certain arrangements with other dealers

(1) A *Dealer Member's clearing arrangement* under which it acts as the clearing broker for another dealer is permitted and is not considered an *introducing broker / carrying broker arrangement* for the purposes of Rule 2400, provided that the arrangement also qualifies as a clearing arrangement under the rules of the relevant *SRO* in the jurisdiction of the other dealer.

2462. – 2479. Reserved.

PART D – PROHIBITED BACK OFFICE SHARING ARRANGEMENTS

2480. Prohibited introducing broker / carrying broker arrangements

(1) A *Dealer Member* must not enter into an *introducing broker* / *carrying broker arrangement* with any *person* except with:

(i) another *Dealer Member*, in accordance with the requirements in sections 2403 through 2430, or

(ii) a foreign *affiliate* dealer, in accordance with the requirements in sections 2435 and 2436.

2481. – 2489. Reserved.

PART E – SERVICE ARRANGEMENTS

2490. Acceptable service arrangements

(1) A *Dealer Member* or *Approved Person* may enter into a *service arrangement* provided:

(i) both parties enter into a written agreement describing all material terms of the services to be provided,

(ii) a copy of the written *service arrangement*, along with any changes or notice of termination, must be provided to the *Corporation* upon request,

(iii) any renumeration or compensation for services provided under the *service arrangement* is paid directly to the *person* providing the services, and

(iv) *records* of the *service arrangement* payments are maintained in accordance with *Corporation requirements.*

(2) A *Dealer Member* or *Approved Person* receiving services under a *service arrangement* is responsible for compliance with all relevant *Corporation requirements*, *securities laws* and *applicable laws*.

(3) Any *person* preparing or maintaining *records* as a service for a *Dealer Member* or *Approved Person,* under a *service arrangement*, must:

(i) comply with the recordkeeping requirements in Rule 3800, and

(ii) make the *records* available for review by the *Dealer Member* or *Approved Person* and by the *Corporation* in accordance with *Corporation requirements*.

(4) The *Corporation* may request that the *Dealer Member* or *Approved Person* provide additional information related to a *service arrangement*.

2491. – 2499. Reserved.

[...]

RULE 2700 | CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2701. Introduction

(1) The *Corporation* requires *Approved Persons* to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies.

(2) Rule 2700 is divided into the following parts:

Part A – Continuing education requirements for Investment Dealer Members' Approved Persons

[sections 2702 – 2755]

Part A.1 – The Investment Dealer Member's continuing education program and continuing education requirements

[sections 2703 and 2704]

Part A.2 – Investment Dealer Member's Continuing education program courses and administration

[sections 2715 through 2717]

Part A.3 – Participation in the Investment Dealer Member's continuing education program

[sections 2725 and 2726]

Part A.4 – Changes during an Investment Dealer Member's continuing education program cycle

[section 2735]

Part A.5 – Discretionary relief

[section 2745]

Part A.6 – Penalties applicable to the Investment Dealer Member's continuing education requirements for Approved Persons

[section 2755]

Part B – Continuing education requirements for Mutual Fund Dealer Members' Approved Persons

[sections 2761-2789]

Part B.1 – Proration of Credits

[sections 2763-2765]

Part B.2 – Leaves of absence

[sections 2766-2767]

Part B.3 – Component content

[sections 2768-2771]

Part B.4 – Delivery standard

[sections 2772-2773]

Part B.5 – Accreditation
[sections 2774-2778]
Part B.6 – Evidence of completion
[sections 2779-2780]
Part B.7 – Reporting
[sections 2781-2785]
Part B.8 – Assessments
[sections 2786-2788]
Part B.9 – Compliance
[sections 2789-2790]

PART A - CONTINUING EDUCATION REQUIREMENTS FOR INVESTMENT DEALER MEMBERS' APPROVED PERSONS

2702. Definitions

(1) The following terms have the meaning set out below when used in sections 2703 through 2759:

"Investment Dealer Member continuing education course" (*cours de formation continue des courtiers membres en placement*)	A single, integrated course or series of relevant courses, seminars, programs or presentations that together meet the time and content requirements for continuing education set out in Part A of Rule 2700.
"Investment Dealer Member continuing education participant" (*participant au programme de formation continue des courtiers membres en placement*)	An *Investment Dealer Member*'s *Approved Person* approved in one or more of the categories set out in subsection 2704(1).
"Investment Dealer Member continuing education program" (*programme de formation continue des courtiers membres en placement*)	The *Corporation's* continuing education program, consisting of compliance and professional development requirements for *Investment Dealer Members*.

PART A.1 - THE INVESTMENT DEALER MEMBER CONTINUING EDUCATION PROGRAM AND CONTINUING EDUCATION REQUIREMENTS

2703. The Investment Dealer Member continuing education program

(1) The *Investment Dealer Member continuing education program* consists of two parts:

(i) a compliance course requirement, which is training covering ethical issues, regulatory developments and rules governing investment dealer conduct, and

(ii) a professional development course requirement, which is training that fosters learning and development in areas relevant to investment dealer business.

(2) The *Investment Dealer Member continuing education program* operates in two year cycles. The first two year cycle commenced on January 1, 2018. The beginning and end of each *Investment Dealer Member continuing education program* cycle is the same for all *Investment Dealer Member continuing education participants*.

(3) An *Investment Dealer Member* or external course provider may provide an *Investment Dealer Member continuing education course*.

(4) An *Investment Dealer Member* or external course provider may submit *Investment Dealer Member continuing education courses* for accreditation through the *Corporation's* accreditation process.

(5) An *Investment Dealer Member continuing education participant* is exempt from the professional development course requirement if he or she:

(i) is approved in the category of an *Investment Dealer Member*'s *Registered Representative, Associate Portfolio Manager, Portfolio Manager* or *Supervisor,* and

(ii) has been continuously approved in a retail trading capacity since January 1, 1990 or earlier by either the *Corporation*, the Toronto Stock Exchange, the Montreal Exchange, or the TSX Venture Exchange including any of their predecessors.

(6) An *Investment Dealer Member continuing education participant* cannot receive continuing education credits for the same *Investment Dealer Member continuing education course* unless the course has been updated to contain new course content, with the exception of *Corporation* accredited ethics courses referred to in subsection 2715(3).

2704. Investment Dealer Member continuing education requirements

(1) In each *Investment Dealer Member continuing education program* cycle, an *Investment Dealer Member continuing education participant* must meet the continuing education requirements for the applicable *Investment Dealer Member's Approved Person* category, regardless of product type, as set out in the following table.

Investment Dealer Member's Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Registered Representative	*retail client*	Yes	Yes
Registered Representative	*institutional client*	Yes	No
Investment Representative	*retail client* or *institutional client*	Yes	No
Portfolio Manager	*retail client* or *institutional client*	Yes	Yes
Associate Portfolio Manager	*retail client* or *institutional client*	Yes	Yes

Investment Dealer Member's Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Trader	N/A	Yes	No
Supervisor of *Registered Representatives*	*retail client*	Yes	Yes
Supervisor of *Investment Representatives*	*retail client*	Yes	No
Supervisor of *Registered Representatives* or *Investment Representatives*	*institutional client*	Yes	No
Supervisor responsible for the supervision of *option* and similar *derivative* accounts	*retail client* or *institutional client*	Yes	No
Supervisor responsible for the supervision of futures contract, forward contract, contracts for difference, futures contract option and similar *derivative* accounts	*retail client* or *institutional client*	Yes	No
Supervisor responsible for the supervision of *managed accounts*	*retail client* or *institutional client*	Yes	No
Supervisor responsible for the opening of new accounts and account supervision and activity related policies and procedures	*retail client* or *institutional client*	Yes	No
Supervisor designated to be responsible for the supervision of *discretionary accounts*	*retail client* or *institutional client*	Yes	No
Supervisor responsible for the pre-approval of *advertisements, sales communications* and *client communications*	N/A	Yes	No

Investment Dealer Member's Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Supervisor responsible for the supervision of *research reports*	N/A	Yes	No
Ultimate Designated Person	N/A	Yes	No
Chief Compliance Officer	N/A	Yes	No

(2) *Registered Representatives* dealing in mutual funds only who are an employee of a firm registered as both an investment dealer and a mutual fund dealer:

(i) are not subject to and do not need to comply with the *Registered Representative* continuing education requirements set out in subsection 2704(1), and

(ii) are subject to and must comply with the continuing education requirements for individuals registered as a *Mutual Fund Dealer Member*'s *Registered Representative* set out in Part B of this Rule 2700.

(3) An *Investment Dealer Member continuing education participant* registered in more than one *Approved Person* category must meet the continuing education requirements of the category with the most onerous continuing education requirements.

(4) All *Investment Dealer Member continuing education participants* must complete at least 10 hours of compliance courses in each *Investment Dealer Member continuing education program* cycle in accordance with requirements in section 2715.

(5) An *Investment Dealer Member continuing education participant* that is subject to professional development requirements must complete at least 20 hours of professional development courses in each *Investment Dealer Member continuing education program* cycle in accordance with requirements in section 2716.

2705. – 2714. Reserved.

PART A.2 – INVESTMENT DEALER MEMBER CONTINUING EDUCATION PROGRAM COURSES AND ADMINISTRATION

2715. The compliance course

(1) An *Investment Dealer Member continuing education participant*:

(i) cannot carry forward compliance course credits to satisfy continuing education requirements of a subsequent *Investment Dealer Member continuing education program* cycle,

(ii) may receive continuing education credit for a compliance course with an examination, only if the *Investment Dealer Member continuing education participant* successfully passes the examination, and

(iii) may receive continuing education credit of a maximum of five hours for compliance *Investment Dealer Member continuing education courses* offered by a foreign *securities* dealer or foreign external course provider.

(2) An *Investment Dealer Member* may give continuing education credit for *Investment Dealer Member* compliance manual training where:

(i) the content of the compliance manual training satisfies clause 2703(1)(i), and

(ii) the compliance manual training is delivered by the *Investment Dealer Member* through in-person seminars, or webinars that are accompanied by a method of evaluation.

(3) The *Corporation* will accredit ethics courses that an *Investment Dealer Member continuing education participant* can repeat and count towards fulfillment of the compliance course requirement in two *Investment Dealer Member continuing education program* cycles.

2716. The professional development course

(1) An *Investment Dealer Member continuing education participant* subject to the professional development requirement:

(i) may, upon satisfying professional development requirements in the current cycle, carry forward a maximum of 10 hours of a single professional development course of at least 20 hours and completed in the last six months of the current *Investment Dealer Member continuing education program* cycle to satisfy a portion of his or her professional development course requirement in the following *Investment Dealer Member continuing education program* cycle,

(ii) may receive continuing education credit for successful completion of the Wealth Management Essentials Course, where completed to satisfy the post-approval proficiency requirement for *Investment Dealer Member Registered Representatives* dealing with *retail clients*, in the *Investment Dealer Member continuing education program* cycle in which the course is completed, and

(iii) may receive continuing education credit for a professional development course with an examination, only if the *Investment Dealer Member continuing education participant* successfully passes the examination.

2717. Investment Dealer Member's administration of the Investment Dealer Member continuing education program

(1) An *Investment Dealer Member* must:

(i) verify the *Investment Dealer Member continuing education participant's* compliance with the requirements at the end of the *Investment Dealer Member continuing education program* cycle,

(ii) keep evidence of an *Investment Dealer Member continuing education participant's* completion of the *Investment Dealer Member continuing education course*, which may be a certificate issued by the course provider, an attendance sheet, or bulk notice of completion,

(iii) keep *Investment Dealer Member continuing education program records,* including course related materials, for each *Investment Dealer Member continuing education*

program cycle for a minimum of seven years following the end of the *Investment Dealer Member continuing education program* cycle,

(iv) designate an *individual* responsible for supervising training and approving an *Investment Dealer Member continuing education participant*'s chosen *Investment Dealer Member continuing education course*,

(v) ensure that an *Investment Dealer Member continuing education participant*'s chosen *Investment Dealer Member continuing education course* satisfies the content criteria described in subsection 2703(1),

(vi) where the *Investment Dealer Member continuing education course* is delivered by the *Dealer Member,* evaluate an *Investment Dealer Member continuing education participant's* knowledge and understanding of the course,

(vii) ensure that each *Investment Dealer Member continuing education participant* meets the continuing education requirements during each *Investment Dealer Member continuing education program* cycle, and

(viii) update the continuing education reporting system and notify the *Corporation* within 10 *business days* after the end of the *Investment Dealer Member continuing education program* cycle of all *Investment Dealer Member continuing education participants* that have met their continuing education requirements within the prescribed cycle.

(2) An *Investment Dealer Member* may allow an *Investment Dealer Member continuing education participant* to use the continuing education credits earned through courses or seminars completed at the *Investment Dealer Member continuing education participant's* former sponsoring *Dealer Member*. An *Investment Dealer Member* may accept a statement of completion issued by the *Investment Dealer Member continuing education participant's* former sponsoring *Dealer Member*.

2718. – 2724. Reserved.

PART A.3 – PARTICIPATION IN THE INVESTMENT DEALER MEMBER CONTINUING EDUCATION PROGRAM

2725. Participation of recently Approved Persons

(1) An *individual* enters the *Investment Dealer Member continuing education program* cycle upon initial approval in an *Investment Dealer Member's Approved Person* category listed in subsection 2704(1).

(2) Notwithstanding subsection 2725(1), an *individual* that receives approval in an *Investment Dealer Member's Approved Person* category listed in subsection 2704(1) during the last six months of the current *Investment Dealer Member continuing education program* cycle will become subject to the applicable continuing education requirements starting at the beginning of the next *Investment Dealer Member continuing education program* cycle.

2726. Voluntary participation in the continuing education program

(1) Voluntary participation in the *Investment Dealer Member continuing education program* will extend the validity period of the Canadian Securities Course. This extension is valid until the end of the sixth month of the next *Investment Dealer Member continuing education program* cycle.

(2) The *Corporation* will publish a list of courses that qualify for voluntary participation in the *Investment Dealer Member continuing education program*.

(3) A former *Investment Dealer Member's Approved Person* may voluntarily participate in the *Investment Dealer Member continuing education program* by completing a course or courses on the list referred to in subsection 2726(2).

(4) To extend the validity period, a former *Investment Dealer Member's Approved Person* must complete the course or courses on the list referred to in subsection 2726(2) in the *Investment Dealer Member continuing education program* cycle in which the Canadian Securities Course expired.

(5) A former *Investment Dealer Member's Approved Person* may voluntarily participate in the *Investment Dealer Member continuing education program* to extend the validity of the Canadian Securities Course for only one *Investment Dealer Member continuing education program* cycle.

2727. – 2734. Reserved.

PART A.4 - CHANGES DURING AN INVESTMENT DEALER MEMBER'S CONTINUING EDUCATION PROGRAM CYCLE

2735. Changes to Approved Persons category during a continuing education program cycle

(1) An *Investment Dealer Member continuing education participant* who changes his or her *Approved Person* category during an *Investment Dealer Member continuing education program* cycle must complete the continuing education requirements applicable to the new *Investment Dealer Member's Approved Person* category in the same *Investment Dealer Member continuing education program* cycle.

(2) Notwithstanding subsection 2735(1), an *Investment Dealer Member continuing education participant* who changes his or her *Investment Dealer Member's Approved Person* category during the last six months of the current *Investment Dealer Member continuing education program* cycle, becomes subject to the applicable continuing education requirements of the new *Investment Dealer Member*'s *Approved Person* category at the beginning of the next *Investment Dealer Member continuing education program* cycle.

(3) An *Investment Dealer Member continuing education participant* may not change to an *Approved Person* category with less onerous continuing education requirements to avoid completing the more onerous continuing education requirements of a former *Investment Dealer Member*'s *Approved Person* category, or penalties for non-completion of continuing education requirements. Any change to the *Approved Person* category during the last six months of the *Investment Dealer Member continuing education program* cycle which results in less onerous continuing education requirements must be accompanied by an explanation from the sponsoring *Dealer Member* to satisfy the *Corporation* that the category change is not an avoidance measure.

2736. – 2744. Reserved.

PART A.5 – DISCRETIONARY RELIEF

2745. Discretionary Relief

(1) The *Corporation* may extend the time an *Investment Dealer Member continuing education participant* has to complete any *Investment Dealer Member continuing education course* beyond the two year *Investment Dealer Member continuing education program* cycle due to, but not limited to, an illness if:

(i) an *Executive* at the *Investment Dealer Member continuing education participant's* sponsoring *Dealer Member*:

(a) approves the extension,

(b) notifies the *Corporation* of the reason for the extension, and

(c) proposes the new date of completion of the required course,

and

(ii) the *Corporation* approves the request for an extension.

(2) In the case of an indefinite leave of absence, the *Corporation* may exempt from the *Investment Dealer Member continuing education program* an *Investment Dealer Member continuing education participant* who is unable to complete his or her continuing education requirements due to, but not limited to an illness, for more than one *Investment Dealer Member continuing education program* cycle if:

(i) an *Executive* at the *Investment Dealer Member continuing education participant's* sponsoring *Dealer Member*:

(a) approves the exemption,

(b) notifies the *Corporation* of the reason for the exemption, and

(c) states that the leave is for an indefinite period,

and

(ii) the *Corporation* approves the request for an exemption.

(3) An *Investment Dealer Member continuing education participant* who is granted an exemption under subsection 2745(2) and returns to the industry after an absence of:

(i) three years or less must have the *Corporation* determine the continuing education requirements before he or she resumes any activity that needs approval, or

(ii) more than three years must meet the applicable proficiency and registration requirements for his or her *Investment Dealer Member*'s *Approved Person* category.

2746. – 2754. Reserved.

PART A.6 – PENALTIES APPLICABLE TO THE INVESTMENT DEALER MEMBER'S CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2755. Penalties for late filing or not completing continuing education requirements in a continuing education program cycle

(1) On the last *business day* of the first month of an *Investment Dealer Member continuing education program* cycle, the *Corporation* will automatically suspend the approval of the *Investment Dealer Member continuing education participant* if:

(i) an *Investment Dealer Member continuing education participant* fails to complete the continuing education requirements for the previous *Investment Dealer Member continuing education program* cycle within the prescribed cycle, or

(ii) the sponsoring *Dealer Member* fails to update the continuing education reporting system and notify the *Corporation* as required by clause 2717(1)(vii).

(2) A sponsoring *Dealer Member* that fails to comply with the requirements of clause 2717(1)(vii) will be liable for and pay the *Corporation* such fees as the *Board* may prescribe from time to time.

(3) The *Corporation* may reinstate the *Investment Dealer Member continuing education participant's* approval after the sponsoring *Dealer Member* has notified the *Corporation* in writing that the *Investment Dealer Member continuing education participant* has completed the continuing education requirements.

(4) If a sponsoring *Dealer Member* pays a fine in error, the *Corporation* will issue a refund provided the *Dealer Member* requests a refund within 120 days of the date the invoice is issued by the *Corporation*.

2756. – 2760. Reserved.

PART B – CONTINUING EDUCATION REQUIREMENTS FOR MUTUAL FUND DEALER MEMBERS' APPROVED PERSONS

2761. Definitions

(1) The following terms have the meaning set out below when used in sections 2761 through 2789:

"date of participation" (*date de participation*)	The date upon which a *Mutual Fund Dealer Member*'s *Approved Person* was approved, under the Rules, in one or more categories set out under Rule 2600.
"Filer" (*déposant*)	Any *Approved Person*, *Dealer Member*, *individual*, or entity authorized by the *Corporation* to file continuing education credit completion reports with the *Corporation* on behalf of a *Mutual Fund Dealer Member*'s *Approved Persons* and *Mutual Fund Dealer Members*.
"CE reporting and tracking system" or CERTS	The online system established for the purpose of administering the *Mutual Fund Dealer Members'* continuing education program.

(*système de suivi et de rapport de la FC* ou *SSRFC*)	
"MFDM CE credit" (*crédit en FC des CMEC*)	Any continuing education credit that meets the requirements set out in Part B of Rule 2700, including credits for the Business Conduct component, Compliance component, and Professional Development component.
"Participant" (*participant*)	Any *Mutual Fund Dealer Member*'s *Approved Person* who is approved, during a cycle, as a *Registered Representative*, *Chief Compliance Officer* or *Ultimate Designated Person*, or *Supervisor* under these Rules.
"Provider" (*prestataire*)	Any *individual* or entity offering a continuing education activity.

2762. Mutual Fund Dealer Member continuing education

(1) **Compliance with Mutual Fund Dealer Member continuing education Requirements**. Each *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member*'s *Approved Person* shall comply with continuing education requirements applicable to them, as set out under part B of Rule 2700.

(2) **Registered Representative.** For each cycle, every *Approved Person* who is approved as a *Mutual Fund Dealer Member*'s *Registered Representative* under Rule 2600 must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.

(3) **Chief Compliance Officer, Ultimate Designated Person and Supervisor.** Where an *Approved Person* is not approved as a *Mutual Fund Dealer Member*'s *Registered Representative*, but is approved as either a *Chief Compliance Officer* or *Ultimate Designated Person*, or *Supervisor* under the Rules, that *individual* must, for each cycle, complete 8 Business Conduct Credits, and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.

(4) **Continuing education requirements for a Partial Cycle.**

(i) **Non-Application.** A *Mutual Fund Dealer Member*'s *Approved Person* is not required to meet requirements specified under subsections 2762(2) or 2762(3) where, in any given cycle, the *Mutual Fund Dealer Member*'s *Approved Person* is subject to that component requirement for a period that is less than, or equal to, 2 months.

(ii) **Pro-ration of Credits.** Where a *Mutual Fund Dealer Member*'s *Approved Person* is subject to a requirement specified under subsections 2762(2) or 2762(3) for less than a full cycle, and the period in question is greater than 2 months, the *Mutual Fund Dealer Member*'s *Approved Person* may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Part B of Rule 2700.

(5) **Leaves of Absence.** Where a *Mutual Fund Dealer Member*'s *Approved Person* is subject to the requirements under subsections 2762(2) or 2762(3), and was absent, for a period of at least 4 consecutive weeks, from their employment as an *Approved Person*, the *Chief Compliance Officer* can reduce the requirements applicable to that *Approved Person* under subsections 2762(2) or 2762(3), in accordance with the applicable provisions under Part B of Rule 2700.

(6) **Accreditation.** The *Corporation* shall only recognize continuing education activities that have met the minimum requirements set out under Part B of Rule 2700.

(7) **Evidence of Completion.** Each *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member*'s *Approved Person* noted in subsections 2762(2) or 2762(3) must maintain evidence of completion of *MFDM CE credits* for a cycle, as required under Part B of this Rule 2700, for a 24-month period following the end of that cycle.

(8) **Reporting**. *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member*'s *Approved Person* noted in subsections 2762(2) or 2762(3) must meet the minimum requirements set out under Part B of this Rule 2700 respecting notification to the *Corporation* of the completion of *MFDM CE credits*.

(9) **Non-compliance.**

(i) Where, for any given cycle, a *Mutual Fund Dealer Member*'s *Approved Person* does not meet the requirements of the *Mutual Fund Dealer Member* continuing education program, that individual shall cease to act as an *Approved Person* of any *Mutual Fund Dealer Member*, until such time as the *Corporation* has determined that the prescribed requirements have been met.

(ii) Each *Mutual Fund Dealer Member* shall be liable for and pay to the *Corporation* fees, levies, or assessments in the amounts prescribed from time to time by the *Corporation* for the failure of the *Mutual Fund Dealer Member* or a *Mutual Fund Dealer Member*'s *Approved Person* to comply with the requirements of Part B of this Rule 2700.

PART B.1 - PRORATION OF CREDITS

2763. New Participants

(1) Requirements under subsections 2762(2) or 2762(3) do not apply to a *Participant* where their initial *date of participation* falls within the 23rd or 24th month of the cycle.

(2) A *Participant*, who is in their first cycle, must satisfy the requirements for each component specified under subsections 2762(2) or 2762(3) on a pro-rata basis, where their initial date of participation falls within months 1 to 22 of that cycle. A pro-rata calculation made under this section must use the following formula:

Total Number of Component Credits Required = A x B/24

where

A = the total number of *MFDM CE credits* required for the component in a full cycle (i.e. 8 for business conduct, 20 for professional development, and 2 for compliance); and

B = the total number of months remaining in the cycle, including the month of participation; and

The **Total Number of Component Credits Required is rounded up** to the nearest full credit.

2764. Returning Participants

(1) A returning *Participant* who has been previously approved as a *Mutual Fund Dealer*'s *Registered Representative*, *Chief Compliance Officer*, *Ultimate Designated Person*, or as a *Supervisor*:

(i) must, within 10 business days of returning as a *Participant*, satisfy their outstanding *MFDM CE credits*, if any, from the immediately preceding cycle;

(ii) is not required to satisfy the requirements under subsections 2762(2) or 2762(3) in the current cycle, if, as a returning *Participant*, their *date of participation* falls within the 23rd or 24th month of the cycle;

(iii) must satisfy, on a pro-rata basis, the requirements for each component under subsections 2762(2) or 2762(3) for the current cycle, using the formula set out in subsection 2763(2) above, provided that their *date of participation* falls within months 1 to 22 of the current cycle.

2765. Change in Participation

(1) During the course of a cycle, there may be changes to a *Participant*'s categories of approval. As a result of such changes, the *Participant* may become subject to continuing education requirements which are different from those to which they were subject to earlier in that cycle. In such circumstances, the *Participant* must use the following formula to determine their requirements for each component for the cycle:

Total Number of Component Credits Required = A x C/24

where

A = the total number of *MFDM CE credits* required for the component in a full cycle (i.e. 8 for business conduct, 20 for professional development, and 2 for compliance); and

C = the total number of months in the cycle, including each initial partial month, during which the component credit requirement was applicable; and

The **Total Number of Component Credits Required** is rounded up to the nearest full credit.

(2) Notwithstanding the provisions under subsection 2765(1), a *Participant* is not required to satisfy the requirements for any component under subsections 2762(2) or 2762(3) for the current cycle, provided that the total number of months in the cycle during which the component credit requirements was applicable, including each initial partial month, is less than 3.

PART B.2 – LEAVES OF ABSENCE

2766. Leaves

(1) Subsection 2762(5) permits a *Mutual Fund Dealer Member* to reduce the *MFDM CE credit* requirements applicable to a *Participant* under subsections 2762(2) or 2762(3) in

circumstances where the *Participant* was absent, for a period of at least 4 consecutive weeks, from their employment as a *Mutual Fund Dealer Member*'s *Approved Person* due to:

(i) Pregnancy or parental leave;

(ii) Personal emergency leave;

(iii) Family caregiver or medical leave;

(iv) Personal illness or injury;

(v) Mandatory duty as a juror or witness; or

(vi) Other similar leaves of absence defined under applicable provincial laws.

(2) In order to reduce the number of *MFDM CE credit* requirements, the *Chief Compliance Officer*, or their delegate, must:

(i) approve the reduction in the number of *MFDM CE credits*;

(ii) maintain sufficient evidence and documentation to support their decision, including the following:

(a) how the calculation of the reduction in the number of *MFDM CE credits* was determined;

(b) the nature of the absence; and

(iii) notify the *Corporation* of the reduction in the number of *MFDM CE credits* by filing a credit reduction report with the *Corporation* no later than 10 days following the end of each cycle in which the consideration was applicable.

2767. Reduction

(1) A reduction in *MFDM CE credits* must be calculated using the formula outlined under subsection 2763(2) above.

PART B.3 – COMPONENT CONTENT

2768. Introduction

(1) This part B.3 sets out minimum standards for continuing education content for *Mutual Fund Dealer Members*. These standards should be considered in the context of what is reasonable based on the *Participant*'s roles and responsibilities and the *Mutual Fund Dealer Member*'s operations. *Mutual Fund Dealer Members* should have procedures for identifying appropriate training topic areas for their *Participants*.

2769. Business Conduct

(1) Business Conduct content is educational material that promotes, directs and guides ethical and compliant conduct. It includes education regarding ethical issues, *Rules*, other applicable legislation, and *Mutual Fund Dealer Member*'s policies and procedures for complying with regulatory requirements.

(2) A single Business Conduct Credit consists of 1 hour of training in at least one of the following topic areas:

(i) Ethics;

(ii) Rules and the *Mutual Fund Dealer Member*'s policies and procedures for complying with the *Rules*; and

(iii) Relevant legislation and its application.

(3) For each cycle where a *Participant* is required to obtain at least 8 Business Conduct Credits, a minimum of 1 and maximum of 2 such credits must be content relating to ethics.

(4) Ethics related content refers to content that examines ethical principles and moral or ethical problems that may arise in performing duties on behalf of a *Mutual Fund Dealer Member*, including the principles under section 1402 It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

(5) Other business conduct topics include, but are not limited to:

(i) Conflicts of interests;

(ii) Personal financial dealings;

(iii) Regulatory requirements and initiatives that affect *Mutual Fund Dealer Member* operations;

(iv) Disclosure of information to clients;

(v) Documentation standards;

(vi) Know-Your-Client;

(vii) Suitability and new products;

(viii) Know-Your-Product;

(ix) Anti-money laundering laws and regulations and related Member policies and procedures;

(x) Security and privacy of information; and

(xi) Complaint handling.

2770. Professional Development

(1) Professional Development content is educational material that maintains or enhances a *Participant*'s financial knowledge or proficiency.

(2) A single Professional Development Credit consists of 1 hour of training in at least one of the following topic areas:

(i) Products;

(ii) Financial planning;

(iii) Retirement planning;

(iv) Investment strategies and asset allocation;

(v) Client management techniques;

(vi) Economics, Accounting, and Finance;

(vii) Tax planning;

(viii) Estate planning; and

(ix) Insurance.

2771. Compliance

(1) Compliance content is education material relating to the conduct of *Dealer Members* and *Participants* that has been specifically designated by the *Corporation*. Compliance content will include areas relating, but not limited, to, compliance examination findings, Compliance and Enforcement priorities, and proposed Rule changes.

(2) The two Compliance Credits must be obtained by completing continuing education activities specifically designated by the *Corporation*.

PART B.4 – DELIVERY STANDARD

2772. Providers

(1) *Mutual Fund Dealer Members* may provide required content through their own training initiatives or through third parties.

2773. Activity requirements

(1) For a *MFDM CE credit* activity to qualify under this Rule, it must be a structured activity where attendance is tracked, the content is accredited, and, as applicable, delivery of the content and evidence of completion has been documented.

PART B.5 – ACCREDITATION

2774. CERTS eligibility

(1) Accreditation of a continuing education activity is required prior to the *MFDM CE credits* being eligible for reporting on *CERTS*.

2775. Accreditors

(1) Accreditation can be completed by:

(i) A *Mutual Fund Dealer Member*;

(ii) A Third Party recognized by the *Corporation* ("Third Party Accreditor");

(iii) Chambre de la sécurité financière ("Chambre"); or

(iv) the *Corporation*.

2776. Accreditation criteria

(1) All accreditations must use standard evaluation procedures based on the following criteria:

(i) There are adequate learning objectives and a training plan for the activity;

(ii) The content of the activity is consistent with the stated learning objectives and training plan; the resources and materials provided to *Participants* support the stated learning objectives and are consistent with its content at the time of accreditation approval; and whether the activity has met its learning objectives;

(iii) The content of the activity meets the related minimum standards set out under Part B.3 of this Rule 2700;

(iv) The activity includes an adequate written plan for how it will be delivered;

(v) The activity is relevant to the *Participant* and/or the *Mutual Fund Dealer Member*'s business;

(vi) The activity includes adequate details as to how attendance will be confirmed, and how completion of the activity by individual *Participants* will be recorded;

(vii) The qualifications and experience of the trainer and *Provider* are adequate;

(viii) Only one *MFDM CE credit* is assigned per one hour of training;

(ix) The activity has a minimum of 0.5 *MFDM CE credits* (30 minutes) of accredited content with credits rounded to the nearest quarter (0.25) credit (15 minutes); and

(x) The activity is not a preparatory course, study guide or unstructured pre-reading.

2777. Self-accreditation

(1) For *Mutual Fund Dealer Member* self-accreditations, the *Mutual Fund Dealer Member* must maintain evidence of the education activity in sufficient detail to evidence compliance with section 2776.

2778. Eligibility period

(1) Each accredited activity recognized by the *Corporation* will be assigned an eligibility period not longer than 2 years from the date of accreditation.

(2) When the eligibility period expires or there is a material change to the activity that a *Mutual Fund Dealer Member* provides and the *Mutual Fund Dealer Member* intends to continue to offer the activity, the *Mutual Fund Dealer Member* must either re-perform self-accreditation or obtain accreditation from accreditors recognized by the *Corporation*.

(3) A material change, for the purposes of subsection 2778(2), will have occurred when one or more of the continuing education components or content is no longer covered, the duration of the activity has changed, or testing of the activity has been removed. A material change may also occur when the format, delivery method or content has changed.

PART B.6 - EVIDENCE OF COMPLETION

2779. Documentation issued by the Provider

(1) Evidence of completion for *MFDM CE credits*, as required under section 2762, may be in the form of supporting documentation issued by the *Provider*, including certificates/other notices of completion, attendance records, or test results.

2780. Exception to maintain evidence of completion

(1) *Mutual Fund Dealer Members* and *Participants* are not required to maintain evidence of completion for *MFDM CE credits*, where a *Provider*:

(i) facilitates the delivery of accredited content, which meets the requirements under Part B of this current Rule 2700;

(ii) maintains records related to the completion of *MFDM CE credits* by *Participants*; and

(iii) submits such records to the *Corporation* on behalf of such *Participants*, in accordance with the requirements Part B of this current Rule 2700.

PART B.7 – REPORTING

2781. CERTS

(1) *Mutual Fund Dealer Members* and *Participants* must use *CERTS* to comply with the reporting obligations of Part B of this current Rule 2700.

2782. Cycle

(1) Only *MFDM CE credits* obtained during the assigned eligibility period may be used to satisfy the requirements under section 2762. *MFDM CE credits* obtained during any cycle may only be used to satisfy the prescribed *MFDM CE credit* requirements for that cycle or a previous cycle where a *Participant* has outstanding requirements from that previous cycle.

2783. Carry forward

(1) Notwithstanding the provisions of section 2782, *Participants* may carry forward to the next cycle a maximum of 5 excess Professional Development Credits.

2784. Responsibility

(1) *Mutual Fund Dealer Members* and *Participants* must file reports of completed *MFDM CE credits*, and must ensure, where applicable, that any eligible third party filing reports of completed *MFDM CE credits* on their behalf files the reports, no later than 10 business days following the end of the cycle.

2785. Participant ceases to be an Approved Person

(1) Notwithstanding the provisions under section 2784, when a *Participant* ceases to be an *Approved Person* of a *Mutual Fund Dealer Member*, that Member must file a report of all completed *MFDM CE credits* for that *Participant* within 30 days.

PART B.8 – ASSESSMENTS

2786. Review

(1) The *Corporation* may, at its discretion, conduct a review of any accredited continuing education activity delivered to *Participants* including the records to be retained by a *Mutual Fund Dealer Member* or *Participant* in respect of the *MFDM CE credits* reported to the *Corporation*.

2787. Notification

(1) In such instances, the *Participant* or *Mutual Fund Dealer Member* shall be notified, in writing, by the *Corporation* of the continuing education activities being reviewed and will have 15 days to submit to the *Corporation* any documents and information requested as part of the assessment.

2788. Rejection

(1) Failure by a *Participant* or *Mutual Fund Dealer Member* to submit adequate evidence to support the continuing education activity delivered and the *MFDM CE credits* reported may result in the rejection by the *Corporation* of all or some of the reported *MFDM CE credits* associated with that continuing education activity. As a result of such rejection, the *Participant* may, for that cycle, be found to be non-compliant with the requirements under section 2762.

PART B.9 - NON-COMPLIANCE

2789. Notification and Fees

(1) Where, for any given cycle, the *Corporation's* records indicate that a *Participant* has not met the requirements as prescribed under Part B of this current Rule 2700, the *Corporation* shall notify the *Participant*'s sponsoring *Dealer Member* of the non-compliance determination no later than 30 days from:

(i) the end of the cycle,

(ii) for a returning *Participant*, upon failure to satisfy any outstanding credits from the immediately preceding cycle, or

(iii) at the completion of an assessment of the records maintained by a *Participant* or *Dealer Member* where a rejection by the *Corporation* of reported *MFDM CE credits* has resulted in non-compliance for a *Participant*.

(2) Where a *Dealer Member* has been notified of such non-compliance pursuant to subsection 2789(1), the *Dealer Member* shall have 15 days to submit a response for each non-compliance notification detailing a plan for each *Participant* to become compliant with the requirements under Part B of this current Rule 2700.

(3) Where, after receiving and reviewing the *Dealer Member*'s response, the *Corporation* has determined that a *Participant* has not met the prescribed *MFDM CE credit* requirements for a given cycle, and the *Corporation* is not satisfied with the *Dealer Member*'s response, the *Corporation* shall provide notification to the *Participant*'s sponsoring *Dealer Member* indicating that the *Participant* is not to act as an *Approved Person* of any *Mutual Fund Dealer Member* until such time as the *Corporation* has determined that the prescribed *MFDM CE credit* requirements have been met.

(4) Where a *Dealer Member* has been notified pursuant to subsection 2789(3), the *Dealer Member* shall:

(i) immediately provide appropriate notification of this matter to the applicable *Participant*, and

(ii) promptly take all steps necessary to ensure that all impacted clients continue to receive service in accordance with requirements under the *Rules*.

(5) Where the *Corporation* has determined that a *Participant* has not met the prescribed *MFDM CE credit* requirements for any given cycle, as prescribed under Part B of this current Rule

2700, the *Corporation* may, for each such occurrence, impose a $2,500 fee on the *Participant*'s sponsoring *Dealer Member*.

(6) *Dealer Members* will have 30 days from the date of notification to pay the fee in full to the *Corporation*.

2790. Reinstatement

(1) Where the *Corporation* has provided notification to a *Participant*'s sponsoring *Dealer Member* pursuant to subsection 2789(3), the *Dealer Member* and *Participant* may file *MFDM CE credit* reports for that applicable cycle for review by the *Corporation*.

(2) Where the *Corporation* subsequently determines that the *Participant* has met the prescribed *MFDM CE credit* requirements for that applicable cycle, notification will be delivered to the *Participant*'s sponsoring *Dealer Member* stating that the *Participant* is in compliance with the requirements under Part B of this current Rule 2700.

2791. – 2799. Reserved.

[...]

RULE 3700 | REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS

3701. Introduction

(1) Rule 3700 sets out *Dealer Members'*, *Approved Persons'* and *employees'* reporting, internal investigation and *complaint* handling and investigation requirements. Rule 3700 is divided into the following parts:

Part A – Reporting requirements
[sections 3710 through 3712]

Part B – Internal investigations and internal discipline
[sections 3720 through 3723]

Part C – Settlements and Confidentiality Restrictions
[sections 3730 and 3731]

Part D – Client complaints – Institutional Clients
[section 3740]

Part E – Client complaints – Retail Clients
[sections 3750 through 3759]

Part F – Legal actions
[section 3760]

Part G – Specific record retention requirements for client complaints
[section 3770]

3702. Definitions

(1) The following terms have the meaning set out below when used in Rule 3700:

"compensation" (*indemnité*)	Any payment of money, *securities*, or adjustments to a *securities* transaction (whether the transaction has a realized or unrealized loss) intended to compensate a client or offset an action by a Dealer Member or Approved Person, excluding corrections to a client account or position due to good faith trading errors and omissions.
"complaint" (*plainte*)	An expression of dissatisfaction from a client, a former client or any person who is acting on behalf of a client, for which a final response is expected in respect of: (i) a current or former *Dealer Member*, *Approved Person* or *employee*, or (ii) a service or product offered by a *Dealer Member*.
"cybersecurity incident" (*incident de cybersécurité*)	Any act to gain unauthorized access to, disrupt, or misuse a *Dealer Member's* information system, or information stored on such information system, that has resulted in, or has a reasonable likelihood of resulting in: (i) substantial harm to any *person*, (ii) a material impact on any part of the normal operations of the *Dealer Member*,

	(iii) invoking the *Dealer Member's* business continuity plan or disaster recovery plan, or (iv) the *Dealer Member* being required under any *applicable laws* to provide notice to any government body, *securities regulatory authority* or other *SRO*.
"internal dispute resolution service" (*service interne de règlement des différends*)	An internal dispute resolution service offered by the *Dealer Member*, or an *affiliate* of the *Dealer Member*, to the *Dealer Member*'s clients, other than the *complaint* handling service described in section 3752.
"non-reportable complaint" (*plainte à signalement facultatif*)	A *complaint* where there is: (i) no material harm (or reasonable risk of material harm) to a client or the capital markets, and no allegations of a breach of *Corporation requirements*, *securities laws* or any *applicable laws* related to the *Dealer Member related activities,* or (ii) an action taken by a *Dealer Member* solely to comply with *Corporation requirements*, *securities laws* or any *applicable laws*, including instances where the client might have incurred financial losses, such as a margin call or an action taken to comply with government-imposed sanctions.
"serious client-related misconduct" (*grave inconduite à l'égard d'un client*)	Any *serious misconduct* relating to a client's or former client's account or to interactions with a client or former client.
"serious misconduct" (*grave inconduite*)	(i) any activity which creates a reasonable risk of material harm to a client, former client or the capital markets, including, but not limited to, any: (a) theft, (b) fraud, (c) misappropriation or misuse of funds or *securities*, (d) forgery, (e) money laundering, (f) insider trading, (g) misrepresentation, (h) unauthorized trading, including discretionary trading contrary to sub-section 3221(1), (i) excessive or improper trading, (j) engaging in *Dealer Member related activities* outside the *Dealer Member*, (k) engaging in activities outside the *Dealer Member* contrary to section 2554, (l) addressing conflicts of interest in a manner that is contrary to section 3106 or section 3107, (m) engaging in personal financial dealings contrary to section 3110, and

	(n) material unresolved violations of the suitability determination obligation in Rule 3400, (o) a breach of client confidentiality, or (ii) any other instance of material non-compliance with *Corporation requirements*, *securities laws* or any *applicable laws* that are applicable to the *Dealer Member related activities*.

3703. – 3709. Reserved.

PART A – REPORTING REQUIREMENTS

3710. Reporting by Approved Persons and employees to the Dealer Member

(1) An *Approved Person* must report to the *Dealer Member* as soon as possible, but no later than within two *business days* upon becoming aware of any of the following matters:

(i) a change in the *Approved Person's* registration information or Form 33-109F4,

(ii) a reason to believe that they may have engaged, or are currently engaging, in *serious misconduct*,

(iii) being the subject of a client *complaint*, including a *non-reportable complaint*,

(iv) a client *complaint* alleging *serious client-related misconduct* by another *Approved Person* or *employee*, or

(v) if the *Approved Person* is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the *Dealer Member,* or concerning matters that occurred while employed by the *Dealer Member*:

(a) charged with, convicted of, pleading guilty or no contest to any criminal offence,

(b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging contravention of any *securities laws* or *applicable laws*,

(c) named as a defendant or respondent in, or is the subject of any proceeding, disciplinary action or investigation alleging contravention of the requirements or policies of any regulatory organization or *SRO*, professional licensing, credentialling or registration body,

(d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or *SRO*, professional licensing, credentialing or registration body,

(e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,

(f) outstanding garnishments rendered against the *Approved Person*, or

(g) any pending legal actions against the *Approved Person*, including a civil claim or arbitration notice alleging *serious misconduct*.

(2) A *Dealer Member* must establish and maintain policies and procedures that require an *employee* report to the *Dealer Member* any of the following matters as soon as possible,

but no later than within two *business days* upon becoming aware of any of the following matters:

(i) a reason to believe that they may have engaged or currently be engaging in *serious misconduct* while engaging in *Dealer Member related activities,*

(ii) being the subject of a client *complaint* alleging *serious client-related misconduct*,

(iii) a client *complaint* alleging *serious client-related misconduct* by an *Approved Person* or another *employee*, or

(iv) if the *employee* is subject to any of the following in any jurisdiction inside or outside of Canada, while the *employee* was in the employ of the *Dealer Member* and was engaged in *Dealer Member related activities*:

(a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to *serious misconduct*,

(b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging *serious misconduct*,

(c) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory or *SRO*, professional licensing, credentialing or registration body,

(d) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,

(e) outstanding garnishments rendered against the *employee*, or

(f) any pending legal actions against the *employee*, including a civil claim or arbitration notice alleging *serious misconduct*.

(3) A *Dealer Member* must designate an *individual* or department to receive, and maintain *records* of, the reports required by subsections 3710(1) and 3710(2).

(4) The reporting requirement under clauses 3710(1)(v)(b) and (c) and clause 3710(2)(iv)(b) do not include disclosure of an investigation if such disclosure is prohibited by *securities laws, applicable laws*, or requirements or policies of any *SRO* or regulatory, professional licensing, credentialling or registration body.

3711. Reporting by a Dealer Member to the Corporation

(1) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within five *business days* upon becoming aware of any of the following matters:

(i) a reason to believe that it, or an *Approved Person,* may have engaged or is currently engaging in *serious misconduct*,

(ii) a reason to believe that an employee may have engaged or is currently engaging in *serious misconduct* while performing *Dealer Member related activities*,

(iii) the *Dealer Member* or *Approved Person* or *employee* has paid substantial *compensation* to a client either directly or indirectly, including in furtherance of a settlement,

(iv) an internal investigation is commenced by the *Dealer Member* in accordance with section 3720,

(v) the *Dealer Member*, or a current or former *Approved Person* is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the *Dealer Member* or concerning matters that occurred while employed by the *Dealer Member*:

(a) charged with, convicted of, plead guilty or no contest to, any criminal offence,

(b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging contravention of any *securities laws* or *applicable laws* related to *Dealer Member related activities*,

(c) named as a defendant or respondent in, or is the subject of any proceeding, or disciplinary action alleging contravention of the requirements or policies of any regulatory organization or *SRO*, professional licensing, credentialling or registration body,

(d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or *SRO*, professional licensing, credentialling or registration body,

(e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,

(f) outstanding garnishments rendered against the *Approved Person*, or

(g) subject to a civil claim or arbitration notice alleging *serious misconduct*,

(vi) the *Dealer Member' employee* is subject to any of the following in any jurisdiction inside or outside of Canada, while performing *Dealer Member related activities* while employed by the *Dealer Member* or concerning matters that occurred while employed by the *Dealer Member*:

(a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to *serious misconduct*,

(b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging *serious misconduct*, or

(c) subject to a civil claim or arbitration notice alleging *serious misconduct*.

(vii) any internal disciplinary action that is taken by a *Dealer Member* against an *Approved Person* or an *employee* as a result of:

(a) a client *complaint* involving allegations of *serious misconduct*,

(b) a civil claim or arbitration notice involving allegations of *serious misconduct*, or

(c) an internal investigation involving allegations of *serious misconduct*.

(2) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within 20 *business days* upon becoming aware of a *complaint* involving allegations of:

(i) *serious misconduct* against the *Dealer Member,* or any current or former *Approved Person,* or

(ii) *serious client-related misconduct* against an *employee* while employed by the *Dealer Member*.

(3) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within five *business days,* the resolution of:

(i) any matter set out in clauses 3711(1)(v) and 3711(vi),

(ii) any internal disciplinary action set out in clause 3711(1)(vii), and

(iii) any client *complaint* set out in clause 3711(2).

(4) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within 20 *business days* from the date on which an internal investigation is completed, a detailed description of the internal investigation conducted under section 3720 and its results.

3712. Reporting of Cybersecurity and Privacy Incidents

(1) A *Dealer Member* must report to the *Corporation* any *cybersecurity incident:*

(i) within three calendar days upon becoming aware of a *cybersecurity incident*, and the report must include the following information:

(a) a description of the *cybersecurity incident*,

(b) the date on which or time period during which the *cybersecurity incident* occurred and the date when the *Dealer Member* became aware of it,

(c) a preliminary assessment of the *cybersecurity incident*, including the risk of harm to any *person* and/or impact on the operations of the *Dealer Member*,

(d) a description of immediate incident response steps the *Dealer Member* has taken to mitigate the risk of harm to *persons* and impact on its operations, and

(e) the name of and contact information for an *individual* who can answer, on behalf of the *Dealer Member*, any of the *Corporation's* follow-up questions about the *cybersecurity incident*,

(ii) within 30 calendar days, unless otherwise agreed by the *Corporation*, upon becoming aware of a *cybersecurity incident*, and the report must include the following information:

(a) a description of the cause of the *cybersecurity incident*,

(b) an assessment of the scope of the *cybersecurity incident*, including the number of *persons* harmed and the impact on the operations of the *Dealer Member*,

(c) details of the steps the *Dealer Member* took to mitigate the risk of harm to *persons* and impact on its operations,

(d) details of the steps the *Dealer Member* took to remediate any harm to any *persons*, and

(e) actions the *Dealer Member* has or will take to improve its *cybersecurity incident* preparedness.

(2) A *Dealer Member* must report to the *Corporation* any material breach of client information that would require reporting under applicable privacy legislation, in the form and in compliance with the timelines required by such legislation.

3713. Failure to report

(1) Failure to report within the timelines set out in sections 3710 through 3712, may result in the *Corporation* imposing an administrative fee, or other penalties that are permitted under the *Corporation requirements*, against the *Dealer Member* or, where applicable, the *Approved Person*.

3714. Method of Reporting

(1) Dealer Members must report under sections 3711 and 3712 using the method approved by the Corporation.

3715 - 3719. Reserved.

PART B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE

3720. Requirement to commence an internal investigation

(1) A *Dealer Member* must conduct an internal investigation, which includes an internal compliance review, if it becomes aware that the *Dealer Member* or a current or former *Approved Person* while employed by the *Dealer Member* engaged in or appeared to have engaged in *serious misconduct*.

(2) A *Dealer Member* must conduct an internal investigation, which includes an internal compliance review, if it becomes aware that a current or former *employee*, while performing *Dealer Member related activities*, engaged in or appeared to have engaged in *serious misconduct* while employed by the Dealer Member.

3721. Records of an internal investigation

(1) For each internal investigation conducted in accordance with section 3720, the *Dealer Member* must maintain *records* in accordance with Rule 3800, showing the:

(i) the issues investigated,

(ii) the relevant factual findings,

(iii) the investigation steps taken, including the documents obtained and the individuals interviewed,

(iv) the evidence collected, and

(v) the conclusion made and any resulting recommendations and steps taken to resolve the matter.

3722. Internal discipline

(1) A *Dealer Member*'s policies and procedures must establish procedures to determine the appropriate disciplinary measures, if any, for any breach of the *Corporation requirements* or *securities laws* by any *Approved Person* or *employee*.

3723. Exception

(1) A *Dealer Member*, *Approved Person* or *employee* is not required to comply with Parts A and B of Rule 3700 for any matter reported to the *Corporation* under Universal Market Integrity Rules 10.16, 10.17 and 10.18.

3724 - 3729. Reserved.

PART C – SETTLEMENTS AND CONFIDENTIALITY RESTRICTIONS

3730. Entering into settlements

(1) *Approved Persons* and *employees* must obtain the *Dealer Member's* written consent before entering into any settlements with a client, regardless of the form of the settlement and

regardless of whether the settlement is the result of a client *complaint* or a finding by the *Approved Person* or the employee or the *Dealer Member*.

(2) A *Dealer Member* must keep a record of the prior written consent in accordance with section 3803.

(3) Subsection 3730(1) does not apply to settlements entered into by an *Approved Person* or *employee* who is authorized by the *Dealer Member* to negotiate or enter into settlements in the normal course of their duties and does not arise out of activities involving the *Approved Person or employee*.

3731. Restrictions / Release

(1) A *Dealer Member* must not, in a release entered into between a *Dealer Member* and a client or otherwise, impose confidentiality or similar restrictions aimed at preventing a client from:

(i) initiating a *complaint* to the *securities regulatory authorities*, *SROs* or other enforcement authorities,

(ii) continuing with any pending *complaint* in progress,

(iii) participating in any further proceedings by such authorities., or

(iv) communicating or sharing information with the *securities regulatory authorities*, *SROs* or other enforcement authorities.

3732. – 3739. Reserved.

PART D – CLIENT COMPLAINTS – INSTITUTIONAL CLIENTS

3740. Complaint policies and procedures

(1) The *Dealer Member*'s policies and procedures must specifically address dealing effectively with *institutional client complaints* received.

(2) The *Dealer Member's* policies and procedures must specifically address the following:

(i) the *Dealer Member* must acknowledge all written *institutional client complaints* alleging *serious client-related misconduct*,

(ii) the *Dealer Member* must acknowledge all verbal *institutional client complaints* alleging *serious client-related misconduct* where a preliminary investigation indicates that the allegation may have merit,

(iii) the *Dealer Member* must convey the results of its investigation, if any, of a *complaint* to the *institutional client* in due course,

(iv) the *Dealer Member* must ensure that the *Approved Person* and their *Supervisor* is aware of all *institutional client complaints* filed against the *Approved Person*,

(v) the *Dealer Member* must ensure that all allegations of *serious misconduct* are reported to an appropriate *Executive*, and

(vi) *complaints* are to be handled by a *Supervisor* and a copy must be filed with the compliance department/function (or the equivalent) of the *Dealer Member*.

(3) If the *Dealer Member* determines that the number or severity of *complaints* is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the *Dealer Member* must:

(i) review its internal policies and procedures,

(ii) ascertain the scope and severity of client detriment that might have arisen,

(iii) consider whether it is fair and reasonable for the *Dealer Member* to undertake proactively a redress or remediation exercise, and

(iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3741. – 3748. Reserved.

PART E – CLIENT COMPLAINTS – RETAIL CLIENTS

3749. Application

(1) Part E of Rule 3700 applies to *retail clients* or persons authorized to act on behalf of *retail clients.*

(2) Sections 3755 to 3759 apply to *complaints* submitted by a *retail client,* or a *person* authorized to act on behalf of a *retail client*:

(i) submitted in writing, or

(ii) alleging *serious client related misconduct*.

(3) Any matter which is the subject of a civil action or arbitration is not considered to be a *complaint* for the purpose of section 3754.

3750. Retail client complaints

(1) A *Dealer Member* must document and, in a manner that a reasonable *retail client* would consider effective, fair and expeditious, respond to each *retail client complaint* made to the *Dealer Member.*

(2) A *Dealer Member* must establish and maintain policies and procedures to deal effectively, fairly and expeditiously with *retail client complaints*.

(3) A *Dealer Member* must provide a written response to any *retail client complaint*:

(i) submitted in writing, or

(ii) alleging *serious misconduct*.

3751. Disclosure of complaint handling procedures

(1) At the time of account opening, a *Dealer Member* must provide each new *retail client* with:

(i) a written summary of the *Dealer Member's complaint*-handling procedures, which is clear and can be easily understood by the client, and

(ii) a copy of the complaint handling process brochure, approved by the *Corporation*.

(2) A *Dealer Member* must make available on its publicly accessible website a written summary of the *Dealer Member's complaint*-handling procedures. Where the *Dealer*

Member does not have a website, the *Dealer Member* must make a written summary of their *complaint*-handling procedures available, on an ongoing basis, by other means.

3752. Handling client complaints

(1) *Complaints* must be handled by supervisory or compliance staff and a copy of the *complaint* must be filed with the compliance department or function (or the equivalent) of the *Dealer Member*.

(2) The *Dealer Member* must commit adequate resources, including training and support, to supervisory or compliance staff managing *complaints* and must establish clear roles and responsibility for the management of *complaints*.

(3) The *Dealer Member* must appoint an *individual* to act as the designated *complaints* officer. The *individual* must have the requisite experience and authority to oversee the *complaint*-handling process and to act as a liaison with the *Corporation*.

(4) An *individual* who is the subject of a *complaint* must not handle the *complaint*.

(5) The *Dealer Member* must provide *complaint* drafting assistance to any complainant who expresses a need for it.

3753. Complaint policies and procedures

(1) A *Dealer Member's* policies and procedures must specifically address:

(i) procedures for a fair and thorough investigation of *complaints*,

(ii) a process for assessing the merits of *complaints* with proper considerations of the facts of the case,

(iii) the process to be followed in determining what offer should be made to the client, where the *complaint* is assessed to have merit,

(iv) a description of remedial actions which may be appropriate to be taken within the *Dealer Member*,

(v) a process that ensures that the relevant *Approved Persons, employees* and their *Supervisors* are made aware of all *complaints* filed by their clients,

(vi) procedures to inform an appropriate *Executive* of any *serious misconduct*, and

(vii) procedures to monitor the general nature of the *complaints*.

(2) If a *Dealer Member* determines that the number or severity of *complaints,* is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, the *Dealer Member* must:

(i) review its internal procedures and practices,

(ii) ascertain the scope and severity of client detriment that might have arisen,

(iii) consider whether it is fair and reasonable for the *Dealer Member* to undertake proactively a redress or remediation exercise, and

(iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3754. Reserved.

3755. Complaint acknowledgement letter

(1) The *Dealer Member* must send an acknowledgement letter to the complainant within five *business days* of receipt of a *complaint*.

(2) The acknowledgement letter in subsection 3755(1) must be written in plain language and be in a format readily accessible and understandable by the complainant and include the following:

(i) the name, job title and contact information of the *individual* at the *Dealer Member* handling the *complaint*,

(ii) a statement indicating that the client should contact the *individual* at the *Dealer Member* handling the *complaint* if they would like to inquire about the status of the *complaint* or provide the *Dealer Member* with any additional information,

(iii) an explanation of the *Dealer Member's* internal *complaint* handling process, including but not limited to the role of the designated *complaints* officer,

(iv) a reference to an attached copy of the *Corporation* approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,

(v) the 90 day time line to provide a substantive response to complainants, and

(vi) a statement informing the client that the *Dealer Member* may request additional information, from time to time, to investigate the *complaint*.

3756. Response to client complaints

(1) The *Dealer Member* must send a substantive response letter to each complainant.

(2) The substantive response letter must be written in plain language and be in a format readily accessible and understandable by the complainant.

(3) The substantive response letter must include the following information:

(i) a summary of the *complaint*,

(ii) the result of the *Dealer Member's* investigation,

(iii) the *Dealer Member's* final decision on the *complaint*, including an explanation of the factors that led to the decision,

(iv) a statement describing to the client the options available if the client is not satisfied with the *Dealer Member's* response, including the availability of:

(a) the *approved ombudsman service*, if a request is made within the period prescribed by the *approved ombudsman service,*

(b) arbitration,

(c) litigation/civil action, and

(d) any other available options,

(v) a statement that the client may submit a *complaint* to the *Corporation* for an assessment of whether any disciplinary action is warranted, and

(vi) if the *Dealer Member* offers an *internal dispute resolution service* to its *retail clients*, a statement describing the availability of an *internal dispute resolution service*, with an explanation that:

(a) the use of the *internal dispute resolution service* process is voluntary, and

(b) the *internal dispute resolution service*'s timeline to provide a letter documenting the *Dealer Member's* final decision to complainants.

(4) A *Dealer Member* must send a substantive response letter to each complainant as soon as possible and not later than 90 days from the date they received the *complaint* subject to the following:

(i) the 90-day time line must include all internal processes of the *Dealer Member* that are made available to the client, other than the *internal dispute resolution service*,

(ii) the *Dealer Member* must inform the client if the *Dealer Member* is unable to provide the client with a substantive response letter within the 90-day time line and must include the reasons for the delay and the new estimated time of completion, and

(iii) the *Dealer Member* must inform the *Corporation* if the *Dealer Member* is unable to meet the 90-day time line and must provide reasons for the delay.

(5) If the *Dealer Member* offers an *internal dispute resolution service* to its *retail clients*, the *Dealer Member* must establish and maintain policies and procedures that require the *internal dispute resolution service* to send a letter documenting the *Dealer Member's* final decision to each complainant as soon as possible and not later than:

(i) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*, or

(ii) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter.

3757. Duty to assist in client complaint resolution

(1) If an *Approved Person* moves to a different *Dealer Member* after a *complaint* has been made against the *Approved Person*, the *Approved Person* must continue to co-operate with the *Dealer Member* where they were employed or acted as an *agent* until the *complaint* has been resolved.

(2) *Dealer Members* must co-operate with each other if events relating to a *complaint* took place at more than one *Dealer Member* or if the *Approved Person* is an *employee* or *agent* of another *Dealer Member* that is not involved in the events relating to the *complaint*.

3758. Reserved.

3759. Communication of dispute resolution service options

(1) If the *Dealer Member* or an *affiliate* of a *Dealer Member* offers an *internal dispute resolution service*, the *Dealer Member* must clearly indicate in their communications with clients the following:

(i) the *internal dispute resolution service* is employed by the *Dealer Member* or an *affiliate* of a *Dealer Member* and is not an independent dispute resolution service,

(ii) a client may submit a *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the *Dealer Member* has not provided the client with a substantive response letter within 90 days as required by subsection 3756(4),

(iii) a client may submit their *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the client is not satisfied with the *Dealer Member*'s substantive response letter,

(iv) the use of the *internal dispute resolution service* is voluntary,

(v) the client is entitled to receive a letter documenting the *Dealer Member's* final decision to each complainant, not later than:

(a) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*; or

(b) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter, and

(vi) that the statutory limitation periods continue to run while an *internal dispute resolution service* reviews a *complaint*, which may impact a client's ability to commence a civil action.

(2) In referring to its *internal dispute resolution service* or to the persons assigned to its *internal dispute resolution service*, a *Dealer Member* may not use any misleading terms, including the term "ombudsman" or any other term with a similar meaning, that suggests that the *internal dispute resolution service* is independent of the *Dealer Member*.

(3) A *Dealer Member* must clearly indicate in their communications with clients the following:

(i) a client has 180 days after receiving the *Dealer Member*'s substantive response letter referred to in section 3756 to submit their *complaint* to the *approved ombudsman service*, and

(ii) the services of the *approved ombudsman service* are provided free of charge.

(4) A *Dealer Member*'s disclosure of the *approved ombudsman service* must:

(i) be at least equally prominent as the *Dealer Member*'s disclosure of the *internal dispute resolution service*,

(ii) be clear, transparent and written in plain language, and

(iii) include the full contact information of the *approved ombudsman service*.

PART F – LEGAL ACTIONS

3760. Reporting legal actions

(1) All legal actions against the *Dealer Member* must be reported to an appropriate *Executive* of the *Dealer Member*.

3761. – 3769. Reserved.

PART G – SPECIFIC RECORD RETENTION REQUIREMENTS FOR CLIENT COMPLAINTS

3770. Client complaints

(1) A *Dealer Member* must document and maintain a copy of each client *complaints* file in a central and readily accessible place for a period of two years from the date of receipt of a client *complaint*.

3771. Client complaint file

(1) A *Dealer Member* must retain the following information in accordance with section 3770 for each client *complaint*:

(i) the complainant's name,

(ii) the date of the *complaint*,

(iii) the nature of the *complaint*,

(iv) the name of the *individual* who is subject of the *complaint*,

(v) the investment products or services which are the subject of the *complaint*,

(vi) the materials reviewed and obtained during the *investigation*,

(vii) the name, title and date *individuals* were interviewed for the *investigation*, and

(viii) the date and conclusion of the decision rendered in connection with the *complaint*.

3772. – 3799. Reserved.

RULE 3800 | RECORDKEEPING AND CLIENT REPORTING

3801. Introduction

(1) Maintaining complete and accurate *records* and reporting to clients in a comprehensive, meaningful and timely manner are fundamental responsibilities of a *Dealer Member.* A *Dealer Member's records* provide an audit trail to support the *Dealer Member's* supervision of its business and are necessary to prepare regulatory financial reports and to report accurately to clients.

(2) Rule 3800 is divided into the following parts:

Part A – Recordkeeping requirements

Part A.1 – General recordkeeping requirements
[sections 3803 to 3806]

Part A.2 – Specific records requirements
[sections 3810 to 3819]

Part B – Client reporting
[sections 3850 to 3860]

3802. Definitions

(1) The following terms have the meaning set out below when used in Rule 3800:

"automatic plan transactions" (*opérations dans le cadre d'un plan automatique*)	Systematic purchases, dispositions, reinvestments, withdrawals, or other payments in the issuer's *investment products* carried pursuant to pre-determined criteria set out in an investment automatic plan.
"book cost" *(coût comptable)*	In the case of: (i) a long *investment product* position, the total amount paid for the *investment product*, including any *transaction charges* related to the purchase, adjusted for reinvested distributions, returns of capital and corporate actions, or (ii) a short *investment product* position, the total amount received for the *investment product*, net of any *transaction charges* related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate actions.
"connected issuer" *(émetteur associé)*	The same meaning as ascribed to it in *securities laws.*
In CIRO Bulletin 24-0288 we propose adding the following new terms and definitions to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
"direct investment fund charge" *(frais directs du fonds d'investissement)*	The amount charged to a client if the client buys, holds, sells or switches *securities* of an investment fund, including any taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund's fund expenses.

"fund expenses per security for the day" *(frais du fonds par titre le jour donné)*	The fund expenses per *security* of the applicable class or series of *securities* of the investment fund for the day that the client owned those *securities*, expressed in dollars, and determined by using the following formula: **A x B = C** where: A = the *fund expense ratio* for the day of the applicable class or series of *securities* of the investment fund; B = the *market value* of a *security* for the day of the applicable class or series of *securities* of the investment fund; C = the fund expenses per security for the day in dollars for the investment fund class or series of *securities*; and where: (i) reasonable necessary adjustments to A or B are made to accurately determine C, or (ii) reasonable approximations of any or all of A, B and C are used, subject to subsections 3854(5) and 3854(6).
"fund expense ratio" *(ratio des frais du fonds)*	The sum of an investment fund's *management expense ratio* and *trading expense ratio*, expressed as a percentage.
"management expense ratio" *(ratio des frais de gestion)*	The same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*.
"newly-established investment fund" *(nouveau fonds d'investissement)*	An investment fund that: (i) has yet to file the required management report of fund performance, as defined in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*, or (ii) is established less than 12 months before the end of the period covered by the fee/charges report the *Dealer Member* is required to deliver pursuant to section 3854.
"operating charge" *(frais de fonctionnement)*	Any amount charged to a client by a *Dealer Member* in respect of the operation, transfer or termination of a client's account and includes any taxes paid on that amount.
"original cost" *(coût d'origine)*	In the case of: (i) a long *investment product* position, the total amount paid for the *investment product*, including any *transaction charges* related to the purchase, or (ii) a short *investment product* position, the total amount received for the *investment product*, net of any *transaction charges* related to the sale.
"outside holdings" *(portefeuille externe)*	Client positions that are neither held at or under the control of the *Dealer Member*:

	(i) in *securities* issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under *applicable laws* and the *Dealer Member* is the dealer of record for the client on the records of the issuer of the *security* or the records of the issuer's investment fund manager, or (ii) in any other *investment product* positions on which the *Dealer Member* receives continuing compensation payments related to the client's ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.
A similar proposal to replace the definition of "outside holding" with the above definition has also been made in CIRO Bulletin 24-0288 (in the context of IDPC Rule 3800).	
"position cost" *(coût de la position)*	For each *investment product* position in the account and each *outside holding* position: (i) on or after December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) in the case of *investment product* positions that are transferred in, either: (I) the amount determined in sub-clause (i)(a) of this definition, or (II) the *market value* of the *investment product* position as at the date of transfer, provided that the following notification or a notification that is substantially similar identifies each position where *market value* has been used is included in the statement or report: "Market value information has been used to estimate part or all of the [book cost/original cost] of this [specify the *investment product*] position." (ii) before December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) the *market value* of the *investment product* position as at December 31, 2015, or an earlier date if reliable information is available, provided that the following notification or a notification that is substantially similar identifies each

	position where *market value* has been used is included in the statement or report: "Market value information as at [December 31, 2015 or earlier date] has been used to estimate part or all of the [book cost/original cost] of this [specify the *investment product*] position." (iii) where the *Dealer Member* reasonably believes it cannot determine the *position cost* in accordance with clause (i) and sub-clause (ii)(b) of this definition, the *Dealer Member* must include the following notification or a notification that is substantially similar: "The [book cost/original cost] of this [specify the *investment product*] position cannot be determined."
A similar proposal to replace the defined term "cost" with "position cost" in every occurrence within the above definition has also been made in CIRO Bulletin 24-0288.	
"related issuer" *(émetteur relié)*	The same meaning as ascribed to it in *securities laws*.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
"total amount of fund expenses" *(montant total des frais du fonds)*	The amount, expressed in dollars, determined by adding together the daily fund expenses for each class or series of *securities* of each investment fund owned by the client for each day that the client owned it during the reporting period, using the following formula to calculate the daily fund expenses: **A x B = C** where: A = *the fund expenses per security for the day* of the applicable class or series of *securities* of the investment fund; B = the number of the applicable class or series of *securities* of the investment fund owned by the client for that day; C = the daily fund expenses in dollars for a class or series of *securities* of the investment fund. A reasonable approximation of the total amount of fund expenses may be used, subject to subsections 3854(5) and 3854(6).
"total percentage return" *(taux de rendement total)*	The cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate into DC Rule section 3802:	
"trading expense ratio" *(ratio des frais d'opérations)*	The ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to

	its average net asset value, calculated in accordance with paragraph 12 of item 3 of Part B of Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* of National Instrument 81-106 *Investment Fund Continuous Disclosure*.
"trailing commission" *(commission de suivi)*	Any payment related to a client's ownership of a *security* that is part of a continuing series of payments to a *Dealer Member* or any of its registered *individuals* by any party.
"transaction charge" *(frais liés aux opérations)*	Any amount charged to a client by a *Dealer Member* in respect of a transaction, other than an *operating charge*, and includes any taxes paid on that amount.

PART A – RECORDKEEPING REQUIREMENTS

PART A.1. - GENERAL RECORDKEEPING REQUIREMENTS

3803. Requirement to maintain records

(1) A *Dealer Member* must maintain current *records* that:

(i) properly record its business activities, financial position, financial operating results and client transactions, and

(ii) demonstrate the *Dealer Member's* compliance with *securities laws* and *Corporation requirements*.

3804. Minimum mandatory records

(1) The *records* required under subsection 3803(1) include, but are not limited to, *records* that do the following:

(i) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to the *Corporation* or the applicable *securities regulatory authority*,

(ii) permit determination of the *Dealer Member's* capital position,

(iii) demonstrate compliance with the *Dealer Member's* capital and insurance requirements,

(iv) demonstrate compliance with internal control procedures,

(v) demonstrate compliance with the *Dealer Member's* policies and procedures,

(vi) permit the identification and *segregation* of client cash, *securities*, precious metals bullion and other property,

(vii) identify all transactions conducted on behalf of the *Dealer Member* and each of its clients, including the parties to the transaction and the terms of the transaction,

(viii) provide an audit trail for:

(a) client instructions, orders, transactions, and required trading authorizations, and

(b) each trade transmitted or transaction executed for a client or by the *Dealer Member* on its own behalf,

(ix) permit the generation of account activity reports for clients,

(x) provide *investment products* pricing as may be required by *securities laws*,

(xi) document the opening of client accounts, as well as any agreements with clients and evidence that account related documents required by *Corporation requirements* have been provided to clients,

(xii) demonstrate compliance with know-your-client, account appropriateness, product due diligence, know-your-product and suitability determination requirements,

(xiii) demonstrate compliance with complaint handling requirements,

(xiv) document *client communications*,

(xv) document compliance, training, and supervision actions taken by the *Dealer Member*,

(xvi) demonstrate compliance with conflicts of interest requirements,

(xvii) document

(a) the *Dealer Member's* sales practices, compensation arrangements and incentive practices, and

(b) other compensation arrangements and incentive practices from which the *Dealer Member* or its *Approved Persons*, or any *affiliate* or *associate* of that *Dealer Member*, benefit,

(xviii) demonstrate compliance with misleading communications requirements,

(xix) demonstrate compliance with the conditions for *temporary holds*,

(xx) demonstrate determination undertaken to classify a client as a *hedger* and as an *institutional client*,

(xxi) document each event required to be reported to the *Corporation* under subsections 3711 and 3712,

(xxii) document an advancement of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund *securities*, including the prior written confirmation referred to in subsection 5112(1), and

(xxiii) document each internal investigation conducted in accordance with section 3720, including:

(a) the issues investigated,

(b) the relevant factual findings,

(c) the investigation steps taken, including the documents obtained and the individuals interviewed,

(d) the evidence collected, and

(e) the conclusion made and any resulting recommendations and steps taken to resolve the matter.

3805. Records retention

(1) A *Dealer Member* must retain copies of all *records* in a safe location required under *Corporation requirements*, in durable and accessible form, for a minimum of seven years from the date the *record* is created unless *Corporation requirements* or *securities laws* relating to the specific type of *record* require a different retention period.

3806. Internal controls and access to records

(1) A *Dealer Member* must maintain appropriate *internal controls* to:
   (i) provide reasonable assurance that its *records*:
      (a) are correct,
      (b) provide clear and accurate information, and
      (c) remain current,
   (ii) enable timely access to records, and
   (iii) provide for suitable back up and recovery of *records* in the event of a *significant business disruption*.

(2) A *Dealer Member* must make its *records* available to the *Corporation* on request, in the manner requested by the *Corporation*.

(3) A *Dealer Member* must provide the *Corporation* with statistical or other information with respect to the *Dealer Member's* business that the *Corporation* may request from time to time, acting reasonably. Such information must be provided as soon as practicable following the *Corporation's* request.

3807. – 3809. Reserved.

PART A.2. – SPECIFIC RECORDS REQUIREMENTS

3810. Transaction blotters (records of original entry)

(1) A *Dealer Member* must maintain blotters or other *records* of original entry by itemizing daily, the following:
   (i) all transactions in *investment products*,
   (ii) all receipts and deliveries of *investment products* (including certificate numbers, for certificated products),
   (iii) all receipts and disbursements of cash, and
   (iv) all other debits and credits.

(2) The blotters or other *records* of original entry must contain, at a minimum, the following:
   (i) in the case of transactions in *securities,* precious metals bullion or similar *investment products*:
      (a) the description, class and designation of the product,
      (b) the number, value or amount of the product and the unit and aggregate purchase or sale price (if any),
      (c) the name or other designation of the *person* from whom or to whom the product was purchased or received or sold or delivered,
      (d) the transaction dates, and
      (e) the applicable account in which each transaction was effected,
   (ii) in the case of transactions in futures contracts, forward contracts, contracts for difference and similar *derivatives*:
      (a) the contract underlying interest,
      (b) the contract quantity bought or sold,

(c) if applicable, the quantity of the underlying interest bought or sold,
(d) if applicable, the contract delivery date,
(e) the price at which the contract was entered into,
(f) the transaction dates,
(g) the applicable account in which each transaction was effected,
(h) if applicable, the name of the product *marketplace*,
(i) if applicable, the name of the dealer, used by the *Dealer Member* as its *agent* to effect the transaction, and
(j) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*),

(iii) in the case of transactions in options contracts, futures contract options and similar *derivatives*:

(a) the contract underlying interest,
(b) the contract quantity bought or sold,
(c) the contract type,
(d) the contract premium,
(e) the contract exercise or striking price,
(f) the contract declaration date,
(g) the transaction dates,
(h) the applicable account in which each transaction was effected,
(i) if applicable:
(I) the futures contract that is the subject of the futures contract option,
(II) the delivery month and year of the futures contract that is the subject of the futures contract option,
(j) if applicable, the name of the product *marketplace*,
(k) if applicable, the name of the dealer used by the *Dealer Member* as its *agent* to effect the transaction, and
(l) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*).

3811. General ledger of accounts

(1) A *Dealer Member* must maintain a general ledger (or other *records*) with an itemized account detail of all assets, liabilities, income, expense and capital accounts.

3812. Itemized client ledger accounts

(1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other transactions of *investment products* for such account and all other debits and credits to such account.

(2) When a *Dealer Member* receives *investment products* or other property to margin, *guarantee*, or secure the transactions of a client's account, the ledger must contain, at a minimum, the following:

(i) a description of the *investment product* or other property received,

(ii) the date when received,

(iii) the identity of any deposit institution where such *investment product* or other property are *segregated*,

(iv) the dates of deposit and withdrawal from such institutions, and

(v) the date of return of such *investment products* or other property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.

(3) When a *Dealer Member* invests the money, proceeds or funds *segregated* for the benefit of its clients, the ledger must contain, at a minimum, the following:

(i) the date of the transaction,

(ii) the identity of the *person* or company through or from whom such *investment products* were purchased,

(iii) the amount invested,

(iv) a description of the *investment products* invested in,

(v) the identity of the deposit institution, other dealer or dealer registered under any *securities laws* where such *investment products* are deposited,

(vi) the date of liquidation or other disposition and the money received on such disposition, and

(vii) the identity of the *person* or company to or through whom such *investment products* were disposed.

3813. Secondary or subsidiary records

(1) A *Dealer Member* must maintain the following ledgers (or other *records*):

(i) *investment products* in transfer,

(ii) dividends and interest received, owed or paid to clients,

(iii) *investment products* borrowed and loaned,

(iv) monies borrowed and monies loaned (together with a *record* of the collateral and any substitutions in such collateral),

(v) *investment products* failed to receive and failed to deliver, and

(vi) money, *investment products* and other property received to margin, *guarantee* or secure the transactions or contracts of clients, and all funds accruing to clients, which must be *segregated* for the benefit of clients under any *applicable laws.*

3814. Securities, precious metals bullion and similar investment products records

(1) A *Dealer Member* must maintain a *record* or a ledger, as of the trade or settlement dates (including positions in *safekeeping*) for each long and short *security,* precious metals bullion, or similar *investment product* position maintained for the *Dealer Member's* account or for the account of clients.

(2) The *record* or ledger must contain the following:

(i) the location of all long positions,

(ii) the offsetting position to all short positions, and

(iii) the name or designation of the account in which each position is maintained.

3815. Derivatives record

(1) A *Dealer Member* must maintain a *record* or ledger, as of the transaction date, for each long and short *derivatives* position maintained for the *Dealer Member's* account or for the account of clients.

(2) The *record* or ledger must contain the name or designation of the account in which each position is maintained.

(3) As part of the *records* required under subsection 3815(1), a *Dealer Member* must maintain a daily *record* that separately identifies the client positions and associated collateral for futures contracts and futures contract options that are subject to the *domestic gross customer margin model*.

(4) *A Dealer Member* must maintain a client identification record, for accounts subject to the domestic gross customer margin model, that includes the client identification information required by the clearing corporation for porting of client accounts.

3816. Memoranda of orders, transactions and other instructions

(1) A *Dealer Member* must maintain an adequate *record* of each order, transaction or other instruction given or received for all transactions in *investment products*, whether executed or unexecuted, showing at a minimum the following:

(i) the terms and conditions of the order, transaction or instruction and of any modification or cancellation thereof,

(ii) the account to which the order, transaction or instruction relates,

(iii) the time of entry of the order, transaction or instruction and, where it is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,

(iv) where the order, transaction or instruction relates to an omnibus account, the component accounts within the omnibus account on whose behalf it is to be executed, and the allocation among the component accounts intended on execution,

(v) to the extent feasible, the time of execution or cancellation,

(vi) the price at which the order, transaction or instruction was executed,

(vii) the time of report of execution,

(viii) whether the transactions are opening or closing transactions (where required by the *marketplace*), and

(ix) evidence that the client was informed of fees and charges in accordance with section 3218.

(2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order, transaction or instruction, if it is placed by an *individual* other than:

(i) the account holder, or

(ii) an individual authorized in writing to direct orders or instructions for the account.

3817. Options and similar derivatives in which the Dealer Member has an interest

(1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options or similar *derivatives* in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the *security* or other underlying interest and the number of units involved.

3818. Margin call records

(1) A *Dealer Member* must maintain a *record* of all margin calls whether such calls are made in writing, by telephone or other means of communication.

3819. Account transfer records

(1) Pursuant to Part B of Rule 4800, a *Dealer Member* must maintain a *record* of all communications concerning account transfers.

3820. – 3849. Reserved.

PART B – CLIENT REPORTING

3850. General information

(1) A *Dealer Member* must include in each statement and report sent to the client in compliance with the requirements of Rule 3800, Part B, the following information:

(i) the type and number of the client account covered by the statement or the report, and the name of the *Approved Person* servicing such account, if applicable,

(ii) the period covered by the statement or the report, and

(iii) the name, address and contact information of the *Dealer Member*, subject to the applicable disclosure requirements of Rule 2400, Part A for *Dealer Member* arrangements.

3851. Client account statements

(1) A *Dealer Member* must make available daily account information, similar to the information included in a statement as prescribed under subsection 3851(4), to each *retail client* who at the end of the day has in their account:

(i) an open futures contract, forward contract, contract for difference or similar *derivative* position, or

(ii) an unexpired and unexercised option contract, futures contract option or similar *derivative* position.

(2) A *Mutual Fund Dealer Member*, that offers margin accounts to clients, or an *Investment Dealer Member* must send a monthly statement to each client who:

(i) requests to receive a client account statement on a monthly basis,

(ii) during the month had in in their account:

(a) a transaction, other than an *automatic plan transaction*,

(b) a cash or account position modification, other than modifications due to dividend payments, interest payments or *automatic plan transactions*, or

(iii) as at the end of the month has in their account:

(a) an unexpired and unexercised option contract, futures contract option or similar *derivative* position, or

(b) an open futures contract, forward contract, contract for difference or similar *derivative* position.

(3) A *Dealer Member* must send a quarterly statement to each client who, at the end of the quarter has in their account:

(i) a debit or credit balance, or

(ii) one or more *investment product* positions (including positions held in *safekeeping* or in *segregation*).

(4) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:

(i) the opening and closing cash balance in the account,

(ii) all deposits, credits, withdrawals and debits made to the account, since the previous statement date, specifying for each transaction made by the *Dealer Member* for the client in the account:

(a) the date of the transaction,

(b) the type of the transaction, including whether the transaction was a purchase, sale or transfer,

(c) the name of the *investment product*,

(d) the number of *investment products* purchased, sold or transferred,

(e) the price per *investment product* if the transaction was a purchase or sale, and

(f) the total value of the transaction if it was a purchase or sale.

(iii) the name and quantity of each *investment product* position in the account,

(iv) for each *investment product* position in the account:

(a) where the *market value* is determinable:

(I) the *market value*,

(II) the total *market value*, and

(III) if applicable, the notification required pursuant to either clause (i)(b) or clause (ii)(b) of the definition of *market value* in subsection 1201(2),

(b) where the *market value* is not determinable, the notification required pursuant to either clause (i)(c) or clause (ii)(c) of the definition of *market value* in subsection 1201(2),

(v) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:

(a) for each *investment product* position in the account:

(I) where the *cost* is determinable, the *position cost* presented on an average cost per unit, or share basis, or on an aggregate basis, and

(II) where the *position cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *position cost* in subsection 3802(1),

and

(b) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:

(I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and

(II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(vi) the total *market value* of all cash and *investment product* positions in the account as at the beginning and the end of the reporting period,

(vii) where the client is a *retail client* and the statement is a quarterly statement, the total cost of all cash, and *investment product* positions in the account, and

(viii) the *investment products* in the account that are eligible for coverage by:

(a) the IPF, conform the *IPF Coverage Policy* and required disclosures under such policy, or

(b) any other investor protection fund approved or recognized by a Canadian *securities regulatory authority*, accompanied with the name of the fund and any required disclosures under the *securities laws*.

(5) In the case of clients with any *investment products* positions which might be subject to a deferred sales charge if they are sold, a notation identifying each position that might be subject to a deferred sales charge.

(6) In the case of clients with any open futures contracts, forward contracts, contracts for difference or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:

(i) the description and quantity of each open contract, and

(ii) the price at which each open contract was entered into.

(7) In the case of clients with any unexpired and unexercised option contracts, futures contract options or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:

(i) the description and quantity of each unexpired and unexercised contract, and

(ii) the exercise or striking price of each unexpired and unexercised contract.

(8) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating transaction in a futures contract or similar *listed derivative*, the monthly statement must contain, at a minimum, the following:

(i) the dates of the initial transaction and liquidating trade,

(ii) the commodity and quantity bought and sold,

(iii) the futures *marketplace* upon which the contract was traded,

(iv) the delivery month and year,

(v) the prices on the initial transaction and on the liquidating trade,

(vi) the gross profit or loss on the transactions,

(vii) the commission, and

(viii) the net profit or loss on the transactions.

(9) If a *Dealer Member* does not deposit clients' *free credit balances* in trust with an *acceptable institution*, where permitted under these rules, the notation prescribed under section 4383 must be included in the client statement.

(10) In the case of *derivatives* transactions executed for an *institutional client* under a give-up agreement, the executing *Dealer Member* shall not be required to send a monthly statement, provided

(i) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement

(ii) the clearing *Dealer Member* is responsible, under the give-up agreement, for sending a monthly statement to the client, and

(iii) the executing *Dealer Member*:

(a) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,

(b) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and

(c) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

A similar proposal to replace the defined term "cost" with "position cost" in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

3852. Report on client positions held outside of the Dealer Member

(1) A *Dealer Member* must send a quarterly report on *outside holdings* to each *retail client* who, at the end of the quarter has one or more *outside holdings*.

A similar proposal to subsection 3852(1), above, has also been made in CIRO Bulletin 24-0288 (in the context of IDPC Rule subsection 3809(1)).

(2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made:

(i) the name and quantity of each position,

(ii) for each position where the *market value* is:

(a) determinable:

(I) the *market value,*

(II) the total *market value*, and

(III) if applicable, the notification required pursuant to clause (i)(b) of the definition of *market value* in subsection 1201(2), and

(b) not determinable, the notification required pursuant to clause (i)(c) of the definition of *market value* in subsection 1201(2),

(iii) for each position where the *position cost* is:

(a) determinable, the *position cost* presented on an average cost per unit, or share basis, or on an aggregate basis, and

(b) not determinable, the notification required pursuant to clause (iii) of the definition of *position cost* in subsection 3802(1),

(iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:

(a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and

(b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(v) the total *market value* of all positions as at the beginning and the end of the reporting period,

(vi) the total *position cost* of all positions.

(3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each position that might be subject to a deferred sales charge.

(4) The report must also indicate:

(i) the name of the party that holds or controls each *outside holding* position and a description of the way it is held,

(ii) that the client's *outside holdings* are not covered by the *IPF*, and

(iii) whether the client's *outside holdings* are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority*, accompanied with the name of the fund and any required disclosures under the *securities laws*.

A similar proposal to replace the defined term "cost" with "position cost" in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

3853. Performance report

(1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:

(i) an account with:

(a) a debit or credit balance, or

(b) one or more *investment products* positions (including positions held in *safekeeping* or in *segregation*), or

(ii) holds one or more *outside holdings*

and

(iii) there is at least one position in the account or at least one *outside holding*, for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 1201(2),

and

(iv) the client's account was opened at least 12 months ago.

(2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) the total combined *market value* of all cash and *investment products* positions:

(a) as at the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, as at July 15, 2015,

(b) as at the beginning date of the 12-month reporting period, and

(c) as at the end date of the reporting period,

(ii) the total combined *market value* of all deposits and transfers in of cash and *investment products* positions:

(a) in the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period, and

(b) in the 12-month reporting period,

(iii) the total combined *market value* of all withdrawals and transfers out of cash and *investment products* positions:

(a) in the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period, and

(b) in the 12-month reporting period,

(iv) the total combined change in *market value* of all cash and *investment products* positions:

(a) for the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period determined using the following formula:

Total *market value* change from account opening = **A-B-C+D**

Where:

A= *market value* at the end of the reporting period
[Sub-clause 3853(2)(i)(c)]

B= *market value* at account opening
[Sub-clause 3853(2)(i)(a)]

C= deposits and transfers in
[Sub-clause 3853(2)(ii)(a)]

D= withdrawals and transfers out
[Sub-clause 3853(2)(iii)(a)], and

(b) for the 12-month reporting period, determined using the following formula:

Total 12-month *market value* change = **A-B-C+D**

Where:

A= *market value* at the end of the reporting period
[Sub-clause 3853(2)(i)(c)]

B= *market value* at the start of the reporting period
[Sub-clause 3853(2)(i)(b)]

C= deposits and transfers in
[Sub-clause 3853(2)(ii)(b)]

D= withdrawals and transfers out
[Sub-clause 3853(2)(iii)(b)],

(v) the amount of the annualized *total percentage return* calculated net of charges using a money weighted rate of return calculation methodology generally accepted in the *securities* industry for the following periods:

(a) the 12-month period covered by the report,

(b) the three-year period preceding the end date of the report,

(c) the five-year period preceding the end date of the report,

(d) the 10-year period preceding the end date of the report, and

(e) the period from the account opening date, or, where the account was opened prior to July 15, 2015 and no reliable information is available, July 15, 2015 to the end date of the report,

provided that if any portion of a period referred to in sub-clauses 3853(2)(v)(b), 3853(2)(v)(c) and 3853(2)(v)(d) is before July 15, 2015, the *Dealer Member* is not required to report the annualized *total percentage return* for that period, and

(vi) the definition of *total percentage return* as set out in subsection 3802(1) and a notification indicating the following:

(a) the *total percentage return* presented in the performance report was calculated net of fees / charges,

(b) the calculation method used, and

(c) a general explanation in plain language of what the calculation method takes into account.

(3) The combined information required to be provided under subsection 3853(2) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining:

(i) the content of the report and how a client can use the information to assess the performance of the client's investments, and

(ii) the changing value of the client's investments as reflected in the information in the report.

(4) The *Dealer Member* must send a performance report containing the combined information required to be provided under subsection 3853(2) to a client every 12 months, except that:

(i) the first performance report to the client may be sent within 24 months after the *Dealer Member* carries out a transaction or transfer for that client, and

(ii) where a performance report that covers the 12-month period ending on December 31, 2016 was sent to the client, all subsequent performance reports for the 12-month periods ending on December 31, 2017 and each calendar year thereafter may include:

(a) the information required by sub-clauses 3853(2)(i)(a), 3853(2)(ii)(a), 3853(2)(iii)(a) and 3853(2)(iv)(a) [Prior period comparative account activity information] as at or for the period commencing January 1, 2016, as applicable, and

(b) the information required by sub-clauses 3853(2)(v)(b) through 3853(2)(v)(e) [Prior period comparative percentage return information] provided that if any portion of a period referred to in sub-clauses 3853(2)(v)(b), 3853(2)(v)(c), and 3853(2)(v)(d), is before January 1, 2016, the *Dealer Member* is not required to report the annualized *total percentage return* for that period.

(5) The information required under this section 3853 must be provided in a separate report for each of the client's accounts.

(6) The information required under this section 3853 in respect of *outside holdings* must be included in the report for each of the client's accounts through which these positions were transacted

(7) Subsections 3853(5) and 3853(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* provided:

(i) the client has consented in writing to receiving a consolidated report,

and

(ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.

(8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3853(7), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and *outside holdings*,

as the annual fee/charge reports that are sent to the same client.

(9) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Mem*ber shall not be required to send an annual performance report under this section 3853, provided the *Dealer Mem*ber sends the client a monthly or quarterly statement which includes the following information about the client's account in addition to the requirements set out under section 3851:

(i) the total profit or loss realized on positions exercised, expired or closed during the period covered,

(ii) the unrealized profit or loss for each opened position at the end of the period covered,

(iii) the profit or loss realized for each positions exercised, expired or closed during the period covered, and

(iv) a disclosure explaining to the client that for the period covered, the statement does not provide information on the changes in *market value* that occurred during the period covered, but provides the client with:

(a) profit or loss realized on positions exercised, expired or closed, and

(b) unrealized profit or loss for opened position at the end of the period covered.

(10) For purposes of subsection 3853(9), all deposits, credits, withdrawals and debits made in the account can be disclosed as a single net deposit or net withdrawal in the statement.

(11) If a *Dealer Member* sends a performance report to the client for a period shorter than 12-months, the *Dealer Member* must not calculate the disclosed information on an annualized basis.

3854. Fee/charge report

(1) A *Dealer Member* must send an annual fee/charge report to each *retail client* who at the end of the 12-month period covered by the report:

(i) has an account with the *Dealer Member*, or

(ii) holds one or more *outside holdings*

and

(iii) such client paid either directly or indirectly, to the *Dealer Member* or any of its *registered individuals,* any fee, charge or other payment reportable under subsection 3854(2) during the period covered by the report.

In CIRO Bulletin 24-0288, we propose repealing and replacing the IDPC Rule clause 3811(1)(iii) with the following, which, once approved, we will incorporate with the shown adjustments into DC Rule 3800 to replace clause 3854(1)(iii):

(iii) such client paid either directly or indirectly any fee, charge or other payment, reportable under subsection 3854(2) during the period covered by the report.

(2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) a discussion of the *operating charges* which might be applicable to the client's account,

(ii) the total amount of each type of *operating charge* related to the client's account paid by the client during the reporting period,

(iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the reporting period,

(iv) the total amount of each type of *transaction charge* related to transactions in *investment products* paid by the client during the reporting period,

(v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the reporting period,

(vi) the aggregate total amount of all charges reported under clauses 3854(2)(iii) and 3854(2)(v),

(vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:

(a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,

(b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of *debt securities*, the following notification or a notification that is substantially similar:

> "For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price your received (in the case of a sale). This amount was in addition to any commissions you were charged.",

(viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by an issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and

(ix) if the *Dealer Member* received *trailing commissions* related to *securities* owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

> "We received $[amount] in trailing commissions in respect of *securities* you owned during the period covered by this report.
>
> Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

In CIRO Bulletin 24-0288 we propose adding the following new provisions to CIRO Rules, which, once approved, we will incorporate with the shown adjustment into DC Rule section 3854:

(x) if the client owned investment fund *securities* during the period covered by the report, the following information about those *securities* for such period:

(a) the *total amount of fund expenses* charged to the investment fund by its investment fund manager or any other party, after making the necessary adjustments to add performance fees and deduct fee waivers, rebates or absorptions, but excluding any charges reported as *transaction charges* under clause 3854(2)(iv),

(b) the total amount of *direct investment fund charges* charged to the client by the investment fund, investment fund manager or any other party, excluding any charges reported as *transaction charges* under clause 3854(2)(iv),

(c) the aggregate total amount of all expenses and charges reported under subclauses 3854(2)(x)(a) and 3854(2)(x)(b),

(d) the aggregate total amount of all *Dealer Member* charges and investment fund expenses and charges reported under clause 3854(2)(vi) and subclause 3854(2)(x)(c),

(e) the *fund expense ratio* of each class or series of *securities* of each investment fund, including any performance fees and deducting any fee waivers, rebates or absorptions,

(f) the following disclosures:

(I) if information reported under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) is based on an approximation or any other assumption, a notification that this is the case,

(II) in relation to any *direct investment fund charges* charged to the client, other than deferred sales charges, a short explanation of the type of fees that were charged,

(III) in relation to the *total amount of fund expenses* reported, the following notification or a notification that is substantially similar:

"Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund.",

(IV) in relation to *the fund expense ratios* required to be reported under subclause 3854(2)(x)(e), the following notification or a notification that is substantially similar:

"Please refer to the prospectus or fund facts document of each investment fund for more detailed information about fund expenses and fund performance.

Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.",

(V) in relation to any deferred sales charges paid by the client, the following notification or a notification that is substantially similar:

"You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.",

(VI) in relation to an investment fund or *securities* of an investment fund where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the information reported for those *securities* under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) is based on information disclosed under the laws of a foreign jurisdiction, the following notification or a notification that is substantially similar:

"This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.",

(VII) in relation to any structured product, labour sponsored investment fund or investment fund the *securities* of which are distributed solely under an exemption from the prospectus requirement in compliance with *securities laws*, the following notification or a notification that is substantially similar:

"Please note that other products you may own or may have owned during the reporting period, such as exempt market investment funds, labour sponsored investment funds or structured products, may have embedded fees that are not reported here. You can contact us for more information.",

(xi) if the *Dealer Member* knows or has reason to believe that the client paid, to third parties, custodial fees, intermediary fees or interest charges related to *investment products* owned by the client during the period covered by the report and those fees or charges are not required to be reported to the client by the *Dealer Member* under this section, the following notification or a notification that is substantially similar

"The costs in this report may not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information.",

(xii) the following notification or a notification that is substantially similar:

"What can you do with this information? Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return. If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.".

(3) A *Dealer Member* may exclude the information required under subclauses 3854(2)(x)(a) and 3854(2)(x)(e) and any approximations of such information for a newly established investment fund in which case the following notification or a notification that is substantially similar must be included in the report:

"The total amount of fund expenses reported may not include cost information for newly established investment funds.",

(4) A *Dealer Member* is not required to report the information under subclauses 3854(2)(x)(a), 3854(2)(x)(b), 3854(2)(x)(e), and any approximations of such information, or the disclosures under paragraphs 3854(2)(x)(f)(I) to 3854(2)(x)(f)(V) and clause 3854(2)(xi) with regards to:

(i) a labour sponsored investment fund, or

(ii) an investment fund whose *securities* are distributed solely under an exemption from the prospectus requirement in compliance with *securities laws*.

(5) A *Dealer Member* is permitted to report a reasonable approximation of the information required under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e), when relying on reasonable approximations to determine such information pursuant to subsection 3854(6).

(6) For the purposes of reporting the information under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) and the disclosures under paragraphs 3854(2)(x)(f)(I), 3854(2)(x)(f)(II), 3854(2)(x)(f)(V) and 3854(2)(x)(f)(VI), the *Dealer Member* must:

(i) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the *Dealer Member* reasonably believes the information provided is incomplete or misleading, and

(ii) where no reliable information can be obtained pursuant to clause 3854(6)(i), make reasonable efforts to obtain or determine by other means the required information, or a reasonable approximation of such information, and

(iii) where it reasonably believes it cannot obtain or determine under clause 3854(6)(ii) information that is not misleading, exclude such information and disclose in the relevant statement or report that the information is excluded from calculations or not reported.

(7) The *Dealer Member* must send a fee/charge report containing the combined information required to be provided under subsection 3854(2) to a client every 12 months, except that the first report sent after a *Dealer Member* opens an account for a client may cover a shorter period.

(8) The information required under this section 3854, must be provided in a separate report for each of the client's accounts.

(9) The information required under this section 3854 in respect of *outside holdings* must be included in the report for each of the client's accounts through which these positions were transacted.

(10) Subsections 3854(8) and 3854(9) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* provided:

(i) the client has consented in writing to receiving a consolidated report, and

(ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.

(11) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3854(10), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and *outside holdings*,

as the annual performance reports that are sent to the same client.

(12) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual fee/charge report under this section 3854, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account for the period covered:

(i) itemized transaction charge and operating charge information in accordance with this section 3854, and

(ii) if applicable, itemized information on compensation received by the *Dealer Member* in connection with a transaction.

(13) For purposes of clause 3854(12)(ii), the following information will be acceptable where the

compensation received by the *Dealer Member* relates to a bulk distribution arrangement:

(i) a calculated product distribution compensation amount, or

(ii) where the distribution compensation amount cannot be unbundled from the manufacturer compensation amount,

(a) the entire compensation amount, and

(b) a note explaining that the amount disclosed is the entire product compensation amount.

(14) Where for a certain *investment product*, the *Dealer Member* reasonably believes that it cannot obtain reliable fee/charge information that is not misleading, the *Dealer Member* must exclude such information and provide meaningful disclosure in the report of the information excluded.

3855. Transaction confirmations

(1) A *Dealer Member* must promptly send the client a written confirmation of transactions in *investment products* and other property for the client's account.

(2) The written confirmation must contain

(i) at a minimum the following information:

(a) the name, address and contact of the *Dealer Member*,

(b) the type and number of the account through which the transaction was effected,

(c) whether or not the *person* or company that executed the transaction acted as principal or agent,

(d) the name of the *Registered Representative* and *Investment Representative*, if any, involved in the transaction,

(e) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the transaction,

(f) the settlement date of the transaction,

(g) the date of the transaction, and if the transaction took place on a marketplace, the marketplace or marketplaces where the transaction took place, or marketplace disclosure language acceptable to the *Corporation*,

(h) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction,

(i) the applicable *IPF* disclosure, in accordance with the *IPF Disclosure Policy*,

and:

(ii) in the case of trades in *securities,* precious metals bullion and similar *investment products*:

(a) the quantity and description,

(b) the price, and

(c) must maintain and make available to the client or the *Corporation,* upon request, the name of the *person* or company from or to or through whom the

product was bought or sold, if acting as an agent in a trade upon an equity *marketplace*,

and

(iii) in the case of transactions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*:

(a) the contract underlying interest,

(b) the contract quantity bought or sold,

(c) if applicable, the quantity of the underlying interest bought or sold,

(d) the contract delivery date, and

(e) the price at which the contract was entered into,

and

(iv) in the case of transactions in options contracts, futures contract options and similar *derivatives*:

(a) the contract underlying interest,

(b) the contract quantity bought or sold,

(c) the contract type,

(d) the contract premium,

(e) the contract exercise or striking price,

(f) the contract declaration date,

(g) if applicable:

(I) the futures contract that is the subject of the futures contract option,

(II) the date of the futures contract that is the subject of the futures contract option,

and

(v) in the case of trades in mortgage-backed *securities*, and subject to the proviso below:

(a) the original principal amount of the trade,

(b) the description of the *security* (including interest rate and maturity date),

(c) the remaining principal amount (RPA) factor,

(d) the purchase/sale price per $100 of original principal amount,

(e) the accrued interest,

(f) the total settlement amount, and

(g) the settlement date,

provided that in the case of trades entered into from the first *business day* of the month to the fourth *business day* of the month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in sub-clauses 3855(2)(v)(a), 3855(2)(v)(b), 3855(2)(v)(d) and 3855(2)(v)(g) and indicating that the information in sub-clauses 3855(2)(v)(c), 3855(2)(v)(e) and 3855(2)(v)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the *security* is

available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required in subsection 3855(2),

and

(vi) in the case of transactions in *debt securities or* similar *investment products*:

(a) in the case of a purchase, where the product is a stripped coupon or a residual debt instrument:

(I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and

(II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other products which are commonly regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed,

(b) in the case of a purchase, where the product is neither a stripped coupon nor a residual debt instrument:

(I) the yield to maturity calculated in a manner consistent with market conventions for the *security* traded,

(II) where the product is subject to call prior to maturity through any means, the notation of "callable" must be included, and

(III) where the product has a variable coupon rate, the notation "The coupon rate may vary." must be included,

(c) where the product trade is not a primary market transaction and the transaction confirmation is being sent to a *retail client*, either of the following:

(I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction, or

(II) the total amount of any commission charged to the client by the *Dealer Member* and, if the *Dealer Member* applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this product (in the case of a purchase) or deducted from the price of this product (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.",

and

(vii) in the case of transactions in

(a) *over-the-counter investment products* other than *debt securities* or a *security* that is undergoing a primary market transaction, and *over-the-counter derivatives* other than contracts with non-standardized terms that are customized to the needs of a particular client and for which there is no secondary market, and

(b) the confirmation is being sent to a *retail client*,

either of the following:

(I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,

(II) one of the following notifications or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this product (in the case of a purchase) or deducted from the price of this product (in the case of a sale)."

"Dealer firm remuneration has been included as an adjustment to the price of this derivatives transaction.",

and

(viii) in the case of transactions involving:

(a) *investment products* of the *Dealer Member*, or

(b) *investment products* of a *related issuer* of the *Dealer Member*, or

(c) *investment products* of a *connected issuer* of the *Dealer Member*, or

(d) *investment products* referenced in sub-clauses 3855(2)(viii)(a) through 3855(2)(viii)(c) that are in the course of a distribution to the public, or

(e) *derivatives* whose underlying interest is referenced in sub-clauses 3855(2)(viii)(a) through 3855(2)(viii)(d),

the transaction confirmation must indicate that the transactions involve products of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member* or a *derivative* whose underlying interest is a product of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

(3) Notwithstanding the provisions of this section 3855, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of:

(i) a trade in a *managed account*, provided:

(a) prior to the trade, the client has consented in writing to waive the transaction confirmation requirement,

(b) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,

(c) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an exemption from any such *applicable laws* by the responsible *securities regulatory authority*, and

(d) where:

(I) a *person* other than the *Dealer Member* manages the account:

(A) a transaction confirmation has been sent to the manager of the account, and

(B) the *Dealer Member* complies with section 3851, or

(II) the *Dealer Member* manages the account:

(A) the account is not charged any commissions or fees based on the volume or value of transactions in the account,

(B) the *Dealer Member* sends to the client a monthly statement that is in compliance with section 3851 and contains all of the information required to be contained in a confirmation under this section 3855 except:

(i) the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the *Corporation*,

(ii) the fee or other charge in connection with the trade, separately from what is being disclosed in the monthly statement,

(iii) the name of the *Registered Representative* or *Investment Representative*, if any, in the transaction,

(iv) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, and

(v) as applicable, the name of the *person* or company from or to or through whom the *security* was bought or sold, if acting as an agent in a trade on an equity marketplace,

(C) the *Dealer Member* maintains the information not required to be in the monthly statement pursuant to sub-paragraph 3855(3)(i)(d)(II)(B) and discloses to the client on the monthly statement that such information will be provided to the client on request.

(ii) a trade in a delivery against payment or receipt against payment trade account, provided:

(a) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *Corporation requirements* or *securities laws*,

(b) the *Dealer Member* maintains an electronic audit trail of the trade under *Corporation requirements* or *securities laws*,

(c) prior to the trade, the client has agreed in writing to waive receipt of transaction confirmations from the *Dealer Member*,

(d) the client is either:

(I) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or

(II) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,

(e) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3855,

(f) for trades subject to broker-to-broker trade matching, the *Dealer Member* has a quarterly compliant trade percentage calculated using the methodology in section 4756 of greater than or equal to 85% for at least two of the last four quarters, and

(g) for trades subject to institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their transaction confirmation waiver, referred to in sub-clause 3855(3)(ii) by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

(iii) a swap transaction, provided:

(a) the *Dealer Member* enters into a standard industry agreement with the client that is acceptable to the *Corporation*, and

(b) the agreement sets out the terms for a client to receive a confirmation of a swap transaction and the key terms of the confirmation.

(iv) a *derivatives* transaction where the *Dealer Member* is the executing broker and the transaction is executed for an *institutional client* under a give-up agreement, provided

(a) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement,

(b) the clearing *Dealer Member* is responsible, under the give-up agreement, for issuing the transaction confirmation to the client, and

(c) the executing *Dealer Member*:

(I) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,

(II) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and

(III) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transaction details with its own record.

(v) a transaction in a *security* of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under subsection 3855(2).

(vi) automatic plan transactions that occur on a monthly or more frequent basis, provided that:

(a) the transaction is in a *security* of a mutual fund, scholarship plan, educational plan or educational trust, and

(b) the *Dealer Member* provides written confirmation for the initial transaction in compliance with this section 3855.

(4) A *Dealer Member* is not required to provide in the transaction confirmation the information required pursuant to:

(i) subclause 3855(2)(i)(h), where the confirmation is sent to an *institutional client* for transactions in *over-the-counter investment products*, other than *debt securities*, with the exception that any commission, if charged in respect of the transaction, must be included in the confirmation, or

(ii) clause 3855(2)(viii), where the confirmation is for transactions involving *investment products* of an issuer whose name is sufficiently similar to the name of the *Dealer Member* to indicate that they are related or affiliated.

3856. Option of earlier date

(1) *Dealer Member*s have the option of providing clients with the following *position cost* information:

(i) *position cost* information included in client account statements [Definition of *position cost* in subsection 3802(1) and clauses 3851(4)(v) and 3851(4)(vii)],

(ii) *position cost* information included in the report on *outside holdings* [Definition of *position cost* in subsection 3802(1) and clauses 3852(2)(iii) and 3852(2)(vi)],

that is prepared as at a date earlier than December 31, 2015.

(2) *Dealer Members* have the option of providing clients with the following performance information:

(i) activity information included in the annual performance report [clauses 3853(2)(i) through 3853(2)(iv)], and

(ii) percentage return information included in the annual performance report [clause 3853(2)(v)],

that is prepared for a period that begins on a date earlier than July 15, 2015.

(3) Where the option in subsection 3856(1) is pursued, all of the position cost information referenced in clauses 3856(1)(i) and 3856(1)(ii) must be prepared for all similar clients as at the same date.

(4) Where the option in subsection 3856(2) is pursued, all of the activity and percentage return information referenced in clauses 3856(2)(i) and 3856(2)(ii) must be prepared for all similar clients as at the same date.

A similar proposal to replace the defined term "cost" with "position cost" in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

3857. Delivery of documents to clients

(1) All confirmations, statements, reports and other documents that are required to be sent to clients under Rule 3800, Part B, must be:

(i) sent promptly to clients,

(ii) provided to clients in electronic format in accordance with *applicable laws* or, when requested, in paper format.

(2) The report on *outside holdings*, prepared pursuant to section 3852, must be sent to the client either:

(i) as a separate document [titled "Report on client positions held outside of the Dealer Member"] within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or

(ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date, provided that is done in a manner that would not mislead a reasonable client with regards to:

(a) the client's assets or positions controlled by the *Dealer Member* and the client's *outside holdings*,

(b) the party that holds or controls each client *outside holding* position and the way it is held, and

(c) the client assets that are eligible for coverage under the IPF, or another investor protection fund approved or recognized by a Canadian *securities regulatory authority*, and the ones that are not.

(3) The *Dealer Member* may provide clients with consolidated statements of client accounts with *outside holding* reports in addition to, but not in place of, the account statements and outside holdings reports sent to clients separately or combined, in compliance with subsection 3857(2).

(4) The performance report and the fee/charge report, prepared pursuant to sections 3853 and 3854 for the same 12-month period, must be sent to the client together and either:

(i) within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or

(ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date.

In CIRO Bulletin 24-0288 we propose adding the following new sections to CIRO Rules, which, once approved, we will incorporate with the shown adjustment into DC Rule sections 3858 and 3859, respectively:

3858. Client reporting responsibility

(1) A *Dealer Member* who acts as a *carrying broker*, or only provides trade execution, clearing, settlement or custody services or a combination of these services, to another *Dealer Member*, *portfolio manager*, *exempt market dealer* or their respective clients, with regards to a client account or *outside holding* positions, is exempt from the responsibility to send**:**

(i) a performance report to the client, pursuant to section 3853, and

(ii) a fee/charge report to the client, pursuant to section 3854, except for its own service fees and charges to the client,

regarding such a client account or *outside holding* positions, unless it has undertaken to send such reports on behalf of the other *Dealer Member*, *portfolio manager* or *exempt market dealer* pursuant to an outsourcing or service arrangement.

3859. Corporation exemptions

(1) The *Corporation* may exempt a *Dealer Member* from the applicable reporting requirements under sections 3852, 3853 and 3854 with respect to clients *outside holdings*, when the costs of requiring the *Dealer Member* to comply with such requirements significantly outweigh the benefits to the *Dealer Member*'s clients from such reporting.

(2) The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member*'s clients, the public or the *Dealer Member.*

(3) In granting an exemption under section 3859, the *Corporation* may impose any terms and conditions it considers necessary.

3860. Exempt Market Dealers and Scholarship Plan Dealers

(1) Where a *Mutual Fund Dealer Member* is also registered as:

(i) an exempt market dealer, and a client has purchased a *security* from the *Mutual Fund Dealer Member* that is sold pursuant to an exemption under *securities laws*; or

(ii) as a scholarship plan dealer, and a client has invested in a scholarship plan through the *Mutual Fund Dealer Member*,

the *Mutual Fund Dealer Member* must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under *securities laws*.

3861. – 3899. Reserved.

RULE 4100 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

4101. Introduction

(1) Rule 4100 sets out the following *Dealer Member* general financial requirements:

Part A - Minimum capital level and related requirements
[sections 4110 through 4120]

Part B - Early warning tests and related requirements
[sections 4130 through 4138]

Part C - Regulatory financial report filing requirements
[sections 4150 through 4153]

Part D - Appointment of auditors and audit requirements
[sections 4170 through 4192]

4102. - 4109. Reserved.

PART A - MINIMUM CAPITAL LEVEL AND RELATED REQUIREMENTS

4110. Introduction

(1) Part A of Rule 4100 sets out general *Corporation requirements* for:

(i) minimum capital levels,

(ii) maintaining at all times a positive *risk adjusted capital* amount,

(iii) averting, reporting and remedying any negative *risk adjusted capital* situations,

(iv) calculating its current *risk adjusted capital* amount,

(v) maintaining and utilizing a capital adequacy reporting system, and

(vi) consolidating its financial position reporting with *related companies*.

4111. Minimum capital levels

(1) A *Dealer Member* must maintain at all times a minimum capital amount for the purposes of calculating *risk adjusted capital.*

(2) A *Mutual Fund Dealer Member*'s minimum capital amount is based on designated levels as follows:

Dealer Level	Description
(i) Level 1 Dealer	A *Mutual Fund Dealer Member* that is: (a) an *introducing broker* which complies with the requirements in sections 2407 and 2430, (b) not a Level 2, 3 or 4 Dealer, and (c) not otherwise registered in any other category of registration under *securities laws*.
(ii) Level 2 Dealer	A *Mutual Fund Dealer Member* that does not hold or control client cash, *securities* or other property.

Dealer Level	Description
(iii) Level 3 Dealer	A *Mutual Fund Dealer Member* that does not hold or control client *securities* or other property except client cash in a trust account.
(iv) Level 4 Dealer	A *Mutual Fund Dealer Member* that: (a) holds or controls client cash, *securities* or other property, and (b) is not a Level 3 Dealer.

(3) The minimum capital amount for:

(i) a *Mutual Fund Dealer Member* is:

(a) $25,000 for a firm designated as a Level 1 Dealer,

(b) $50,000 for a firm designated as a Level 2 Dealer that is not registered as an investment fund manager under *securities laws,*

(c) $75,000 for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under *securities laws,*

(d) $100,000 for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under *securities laws*,

(e) $200,000 for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients,

(f) $250,000 for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients,

and

(ii) an *Investment Dealer Member* is:

(a) $75,000 for a firm that is a Type 1 *introducing broker,* and

(b) $250,000 for a firm that is not a Type 1 *introducing broker.*

4112. Maintaining a positive risk adjusted capital amount

(1) A *Dealer Member* must at all times maintain a *risk adjusted capital* amount of greater than zero.

4113. Negative risk adjusted capital and other early warning test failure situations

(1) The *Chief Financial Officer* and *Ultimate Designated Person* must take prompt action to:

(i) avert or remedy any projected or actual negative *risk adjusted capital* situations,

(ii) report to the *Corporation* any actual negative *risk adjusted capital* situations,

(iii) report to the *Corporation* any early warning test failure situations that could require the *Dealer Member* to be designated in early warning level 1 or level 2, and

(iv) report to the *Corporation* any circumstances from which it should be apparent that there would be early warning test failures that could require the *Dealer Member* to be designated in early warning level 1 or level 2 if the *Dealer Member* had complied with the requirements of Rule 4100 and performed the early warning test calculations.

4114. Calculating current risk adjusted capital amount - general requirements

(1) A *Dealer Member* must calculate its *risk adjusted capital* amount according to the requirements specified in Form 1 and any other *Corporation requirements*.

(2) A *Dealer Member* must know its current *risk adjusted capital* amount by computing it as often as necessary to ensure it has adequate regulatory capital at all times. The *Dealer Member* must also comply with weekly, monthly and annual calculation and documentation requirements in Rule 4100.

4115. Calculating current capital position

(1) 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 risk adjusted capital* amount,

(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 risk adjusted capital* amount (for instance, bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements),

(iii) calculated the *Dealer Member's risk adjusted capital* amount, compared it to planned and prior period capital levels, and reported adverse trends or variances to the *Ultimate Designated Person*,

(iv) performed the early warning liquidity and capital test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has or may have violated any of these tests, and

(v) performed the early warning profitability test calculations for the *Dealer Member* where the *Dealer Member* has experienced a significant month-to-date loss, and determined whether or not the *Dealer Member* has or may have violated this test.

(2) The *Chief Financial Officer* or designate must document and calculate the current capital position under section 4115(1):

(i) at least weekly, for a Level 4 Dealer or an *Investment Dealer Member*, or

(ii) at least twice per month, for a Level 1, 2 or 3 Dealer,

but more frequently if required, including but not limited to instances where the *Dealer Member* is close to violating an early warning test or volatile market conditions exist.

4116. Calculating current capital position - monthly documentation and reconciliation

(1) A *Dealer Member* must generate monthly trial balances and prepare regulatory 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 *risk adjusted capital* amount as required under Part A of Rule 4100.

(2) The *Chief Financial Officer* or designate must document that he or she has at least monthly, performed the early warning liquidity, capital and profitability test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has violated this test.

(3) The preliminary month-end estimate of the *Dealer Member's risk adjusted capital* amount must be reconciled to the final *risk adjusted capital* amount reported as part of the *Dealer Member's monthly financial report*. Material discrepancies must be investigated and steps taken to avoid re-occurrence.

4117. Dealer Member capital adequacy reporting system - adequate policies and procedures

(1) A *Dealer Member* must:

(i) have policies and procedures that specifically address timely, complete and accurate *records*,

(ii) maintain a capital adequacy reporting system:

(a) based on timely, complete and accurate accounting *records*,

(b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (for instance, capital markets, principal trading, borrowing/lending),

(c) that includes senior management approved capital usage limits for each of these functional areas that provides for reasonable assurance its combined operations maintain adequate intra-day and end of day *risk adjusted capital* amounts, and

(d) that identifies and informs senior management of breaches of approved capital usage limits. The *Chief Financial Officer* is responsible for identifying any breaches and reporting them to the *Dealer Member's* appropriate *Executives*,

(iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains at all times a positive *risk adjusted capital* amount 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 risk adjusted capital* amount to ensure that the *Dealer Member* maintains at all times a positive *risk adjusted capital* amount as prescribed by *Corporation requirements*.

4118. 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 provided the *Dealer Member* with prior written approval of the consolidation,

(ii) the *Dealer Member* has guaranteed the obligations of the *related company* and the *related company* has guaranteed the obligations of the *Dealer Member*,

(iii) the *guarantees* are:

(a) in a form acceptable to the *Corporation*, and

(b) unlimited in amount,

and

(iv) the consolidation meets the requirements in subsection 4118(2).

(2) A *Dealer Member* consolidating its financial position with a *related company* under subsection 4118(1) must comply with the following requirements or with other requirements acceptable to the *Corporation*:

(i) eliminate inter-company accounts between the *Dealer Member* and the *related company*,

(ii) eliminate any minority interests in the *related company* from the *Dealer Member's* capital calculation, and

(iii) combine *Dealer Member* and *related company* financial information prepared as at the same date.

4119. Options for calculating risk adjusted capital available to well-capitalized Dealer Members

(1) A *Dealer Member*, whose *risk adjusted capital*, *early warning excess* and *early warning reserve* amounts are 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 *risk adjusted capital*:

(i) inventories can be grouped into broader margin categories and maximum margin rates applied,

(ii) margin requirement reductions for offset positions recognized elsewhere in *Corporation requirements* can be ignored, and

(iii) assets partly allowable or of questionable value can be excluded entirely.

4120. Dealer Member guarantees

(1) Any *guarantee* provided by a *Dealer Member* must be of a fixed or determinable amount, unless the *guarantee* is given to a *related company* in accordance with section 2206.

4121. - 4129. Reserved.

PART B - EARLY WARNING TESTS AND RELATED REQUIREMENTS

4130. Introduction

(1) Part B of Rule 4100 describes the early warning system that alerts the *Corporation* to a *Dealer Member's* financial or operational problems. It also sets out the process the *Corporation* follows and the requirements that *Dealer Members* must comply with to resolve *early warning test violation* situations before they worsen.

(2) A *Dealer Member* has a responsibility to:

(i) monitor for *early warning test violations*,

(ii) avoid the potential for *early warning test violations*, and

(iii) report *early warning test violations* to the *Corporation* when they occur.

4131. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4100:

"average monthly loss" *(perte mensuelle moyenne)*	The sum of the *Dealer Member's* monthly *profit* and *loss* amounts for a particular period divided by the number of months in the period and the result is a loss.
"early warning test violation" *(transgression d'un contrôle lié au signal précurseur)*	A violation that has occurred because: (i) a Level 1, 2 or 3 Dealer has failed an early warning test as set out in Schedule 16 of Form 1, or (ii) a Level 4 Dealer or an *Investment Dealer Member* has failed an early warning test as set out in Schedules 17 and 17A of Form 1.
"loss" *(perte)*	The *Dealer Member's* loss, if any, for early warning test purposes as set out in Statement D of Form 1.
"profit" *(profit)*	The *Dealer Member's* profit, if any, for early warning test purposes as set out in Statement D of Form 1.

4132. Early warning designation, levels and tests

(1) A Level 1, 2 or 3 Dealer is designated as being in early warning level 1 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1
Liquidity test	*Mutual Fund Dealer Member's early warning excess* is less than zero.
Capital test	*Mutual Fund Dealer Member's risk adjusted capital* is less than zero.
Profitability test #1	*Mutual Fund Dealer Member's* current month *risk adjusted capital* is less than the *loss* for the most recent quarter.
Profitability test #2	*Mutual Fund Dealer Member's* current month *risk adjusted capital* is less than the *loss* for the most recent 6 months.
Frequency	*Mutual Fund Dealer Member* has been designated as being in any early warning, excluding discretionary early warnings, two or more times in the preceding twelve months.

(2) A Level 4 Dealer or an *Investment Dealer Member* is designated as being in early warning level 1 or level 2 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1	Early warning level 2
Liquidity test	*Dealer Member's early warning reserve* is less than zero.	*Dealer Member's early warning excess* is less than zero.
Capital test	*Dealer Member's risk adjusted capital* is less than five per cent of its *total margin required*.	*Dealer Member's risk adjusted capital* is less than two per cent of its *total margin required*.

Early warning tests	Early warning level 1	Early warning level 2
Profitability test #1	*Dealer Member's* current month *risk adjusted capital* is less than six times but greater than or equal to three times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.
Profitability test #2	*Dealer Member's* current month *risk adjusted capital* is less than six times the absolute value of its *loss*, if any, for the current month.	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *loss*, if any, for the current month.
Profitability test #3	Not applicable	*Dealer Member's* current month *risk adjusted capital* is less than the absolute value of its *loss*, if any, for the three month period ending with the current month.
Frequency	Not applicable	*Dealer Member* has been designated as being in any early warning, excluding discretionary early warnings, three or more times in the preceding six months, **or** *Dealer Member* has failed an early warning level 1 profitability test and at the same time has also failed either an early warning level 1 liquidity or capital test.

4133. Early warning related requirements

(1) When a *Dealer Member* has been designated as being in early warning level 1 or level 2, because of an *early warning test violation* under section 4132, the following actions must be taken:

	Early warning level 1	**Early warning level 2**
Notifying the Corporation in writing	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to the *Corporation* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Investor Protection Fund*.	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to the *Corporation* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Investor Protection Fund*.
Meeting with the Corporation	Not applicable	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must meet with the *Corporation* to present the *Dealer Member's* plan for rectifying the identified problems.
Taking required actions	The *Dealer Member* must: (i) file a *monthly financial report* required under section 4151 within 15 *business days* after the end of each month or on any earlier day that the *Corporation* considers practicable, (ii) provide any other information that the *Corporation* requests, and (iii) comply with the business restrictions in section 4135.	The *Dealer Member* must: (i) file a weekly capital report with the same information as a *monthly financial report* within five *business days* after the end of each week or on any earlier day that the *Corporation* considers practicable, (ii) file a weekly report, in a *Corporation* prescribed form, of its aged *segregation* deficiencies and an outline of its plan to correct them according to sections 4321 through 4326,

	Early warning level 1	Early warning level 2
		(iii) file a business plan for such period and covering such matters as the *Corporation* specifies, (iv) file its next *monthly financial report* required under section 4151 within 10 *business days* after the end of each month or any earlier day that the *Corporation* considers practicable, (v) provide any other information that the *Corporation* requests, and (vi) comply with 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 *Dealer Member* has been designated as being 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 five *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 *Investor Protection Fund*.	The *Corporation* will send a letter to a *Dealer Member* in early warning level 2 confirming that the *Dealer Member* has been designated as being 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 five *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 *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	The *Corporation* will as soon as practicable: (i) conduct an on-site review of the *Dealer Member's* procedures for

	Early warning level 1	Early warning level 2
	monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	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 Rule 4100.	The *Corporation* may require a *Dealer Member* to pay reasonable costs and expenses incurred to administer the *Dealer Member's* early warning situation under Rule 4100.

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 a 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*.

4135. Restrictions on a Dealer Member in early warning

(1) A *Dealer Member* designated as being in early warning level 1 or 2 must 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.

4136. Additional restrictions

(1) The *Corporation* may impose any of the following additional restrictions on a Level 4 Dealer or an *Investment 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 *Dealer Member* or its *carrying broker* may use under Part C of Rule 4300, to an amount the *Corporation* considers desirable. (ii) Prohibiting the *Dealer Member* from opening new branch offices, hiring any new *Registered Representatives, Investment Representatives*, *Portfolio Managers* or *Associate Portfolio*

Early warning level 1	Early warning level 2
	Managers, opening any new client accounts, or changing in any material way the *Dealer Member's* inventory positions.

(2) The *Corporation* may impose the following additional restrictions on a Level 1, 2 or 3 Dealer in early warning:

Early warning level 1	Early warning level 2
(i) Prohibiting the *Mutual Fund Dealer Member* from opening new branch offices, hiring any new *Approved Persons,* opening any new client accounts, or changing in any material way the *Mutual Fund Dealer Member's* inventory positions.	N/A

(3) For the restrictions under early warning level 2 part (ii) of subsection 4136(1) and early warning level 1 part (i) of subsection 4136(2), the *Corporation* must provide the *Dealer Member* with a written notice of the order imposing additional restrictions on the *Dealer Member*.

(4) Review of early warning level prohibitions

(i) The *Dealer Member* may request a *hearing panel* review of a subsection 4136(3) order within three *business days* after release of the decision.

(ii) If a request for review is made, the *hearing* shall be held as soon as reasonably possible and no later than 21 days after the request for review, unless otherwise agreed by the parties. The *hearing panel* review shall be conducted in accordance with the requirements set out in Rule 9300.

(iii) If a *Dealer Member* does not request a review within the time period prescribed in clause 4136(4)(i), the subsection 4136(3) order becomes effective and final.

4137. Prohibited transactions

(1) A *Dealer Member* must not enter into any transaction that would cause the *Dealer Member* to be in early warning unless it first notifies the *Corporation* in writing of its intention to do so and receives the *Corporation's* written approval.

4138. Lifting an early warning designation

(1) A *Dealer Member* will remain designated as being in early warning level 1 or 2 until the *Corporation* confirms in writing that the early warning designation has been lifted. The *Corporation* will lift the early warning designation when the *Dealer Member* files a *monthly financial report*, or submits such other evidence or assurances, that satisfies the *Corporation* that the *Dealer Member* has solved the problems that placed it in early warning.

4139. – 4149. Reserved.

PART C – REGULATORY FINANCIAL REPORT FILING REQUIREMENTS

4150. Introduction

(1) Part C of Rule 4100 sets out a *Dealer Member's* financial reporting obligations. Financial reporting enables the *Corporation* to monitor a *Dealer Member's* financial position and

compliance with *Corporation requirements* relating to regulatory capital, as well as to receive an early indication of any deterioration in that position.

4151. Dealer Member financial filings

(1) A *Dealer Member* must file:

(i) an audited Form 1 for its fiscal year within:

(a) seven weeks following year-end, if it is a *Mutual Fund Dealer Member* that offers margin lending to clients or an *Investment Dealer Member*,

(b) 90 days following year-end, if it is a *Mutual Fund Dealer Member* that does not offer margin lending to clients,

and

(ii) a *monthly financial report* for each calendar month within 20 *business days* following month-end,

in accordance with *Corporation requirements*.

4152. Extending deadline for financial filings

(1) A *Dealer Member* may request an extension of time for filing its *monthly financial report* by writing to the *Corporation*.

(2) A *Dealer Member's auditor* may request an extension of time for filing the *Dealer Member's* annual Form 1 by writing to the *Corporation*.

(3) The *Corporation* may grant an extension under subsections 4152(1) and 4152(2) if it considers the request to be appropriate in the circumstances.

4153. Late filing fee

(1) A *Dealer Member* must pay a fee, even when an extension is granted, to the *Corporation* if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by the *Corporation*.

4154. - 4169. Reserved.

PART D – APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS

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 *Corporation*.

4171. Approved auditors

(1) The *Corporation* annually approves, based on adopted criteria, a list of audit firms as panel auditors eligible to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

(2) The *Corporation* may remove an audit firm from the approved list if the audit firm no longer meets the criteria referred to in subsection 4171(1).

4172. Dealer Member's auditor

(1) A *Dealer Member* must use a *Corporation* approved auditor to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

(2) A *Dealer Member* must notify the *Corporation* of any change in the *Dealer Member's auditor* and/or audit engagement partner.

4173. Responsibilities of a Dealer Member's auditor

(1) The *Dealer Member's auditor* must:

(i) conduct an audit of the *Dealer Member's* fiscal year Form 1 filing, and

(ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the *Dealer Member's* fiscal year Form 1 filing.

4174. No limitation on scope or procedures

(1) Nothing in Part D of Rule 4100:

(i) limits the scope of the audit, or

(ii) allows the *Dealer Member's auditor* to omit any additional audit procedure that it considers necessary under the circumstances.

4175. Audit in accordance with Canadian Auditing Standards

(1) The *Dealer Member's auditor* must audit the *Dealer Member's* fiscal year Form 1 filing in accordance with Canadian Auditing Standards. The audit of a *Dealer Member* requires a substantive approach and must include a review of the accounting system and the *internal controls* for safeguarding assets.

The review must:

(i) cover any in-house or service bureau electronic data processing operations, and

(ii) where applicable, consider and include the appropriate report based on the Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization.

(2) Although conducted in accordance with Canadian Auditing Standards, a *Dealer Member's* substantive audit procedures must be performed as at the fiscal year-end audit date and not as of an earlier date.

(3) A *Dealer Member's risk adjusted capital* and *early warning reserve* levels must be considered when determining materiality for the *Dealer Member's* audit.

4176. Test procedures as at the fiscal year-end date

(1) The *Dealer Member's auditor* must conduct the test procedures in sections 4177 through 4188 as at the fiscal year-end date.

4177. Account for all investment products, currencies, and other like assets

(1) The *Dealer Member's auditor* must account for all *investment products*, currencies and other like assets, including those held in *safekeeping* or in *segregation*, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.

(2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.

(3) If a *Dealer Member* has *employees* who are independent of its *employees* who handle or record *investment products*, currencies and other like assets, those independent *employees* may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.

(4) The *Dealer Member's auditor* must test count and compare sufficient *investment product*, currency and other like asset counts with the independent *employees'* counts, if applicable, and with the position *records*, to be satisfied that the entire count was materially correct.

(5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

4178. Verify positions in transfer and in transit

(1) On a test basis, the *Dealer Member's auditor* must verify positions in transfer and in transit between the *Dealer Member's* offices.

4179. Review the Dealer Member's position balancing and account reconciliations

(1) The *Dealer Member's auditor* must review the *Dealer Member's*:

(i) balancing of all *investment product* positions,

(ii) reconciliations of all broker and dealer accounts to the broker's corresponding statements,

(iii) reconciliations of *nominee name* mutual fund positions, clearing account positions and non-certificated instrument positions, the *Dealer Member* holds or controls (in its inventory and for clients) with the counterparty's corresponding statements,

and

(iv) reconciliations to ensure that all necessary adjustments identified during the preparation have been made.

(2) If a position or account is not in balance according to the *records* (after adjusting to the physical count):

(i) the *Dealer Member's auditor* must find out whether the *Dealer Member* has adequately provided for any potential loss, and

(ii) the *Dealer Member* must make that provision according to the Notes and Instructions for unresolved differences in Statement B of Form 1.

4180. Review bank reconciliations

(1) The *Dealer Member's auditor* must:

(i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the *Dealer Member's* banks which cover a period ending at least 10 *business days* after the fiscal year-end audit date,

(ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts as of the fiscal year-end audit date and on a test basis, using appropriate audit procedures, and

(iii) verify that all necessary adjustments identified during the preparation of the reconciliation have been made.

4181. Review custodial agreements and approvals

(1) Where a *Dealer Member* custodies assets with third parties, the *Dealer Member's auditor* must:

(i) ensure that all custodial agreements in the form prescribed by the *Corporation*, are in place for *securities*, precious metals bullion and other like assets, lodged with *acceptable securities locations*, and

(ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. Obtain written positive confirmations

(1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and *investment product* positions.

(2) The *Dealer Member's auditor* must obtain written positive confirmation of:

(i) all bank balances and other deposits including hypothecated *securities*,

(ii) all money and *investment product* positions custodied or lodged with third parties, including with clearing houses, similar organizations, and issuers of non-certificated instruments,

(iii) all money and *securities* loaned or borrowed (including *subordinated debt*) 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 *investment product* positions,

(v) all accounts of *Directors* and *officers* or partners, including money and *investment product* positions held or controlled by the *Dealer Member*,

(vi) a sample of client, *employee*, and shareholder accounts, including money and *investment product* positions held or controlled by the *Dealer Member*,

(vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or as at the end of the fiscal year,

(viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and

(ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. Selection of accounts for positive confirmation

(1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:

(i) must send a positive confirmation request,

(ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and

(iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.

(2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:

(i) select specific accounts for positive confirmation based on:

(a) account size (all accounts with net 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 under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,

(ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and

(iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

4184. 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 client accounts with no cash balance or positions and client accounts closed since the last fiscal year-end audit date. The *Dealer Member's auditor* must consider the adequacy of the *Dealer Member's internal control* system to decide the extent of these procedures.

4185. 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 confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the *guarantee* agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:

(i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or

(ii) the parties sign a new account *guarantee* agreement.

(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 a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

4186. Review a sample of signed guarantee agreements

(1) The *Dealer Member's auditor* must review a sample of the *Dealer Member's guarantee* agreements to ensure they are signed, completed, and comply with the minimum requirements set out in subsection 5825(1).

4187. Tests and procedures on statements and schedules of Form 1

(1) The additional information set out in Part II of Form 1 should be subjected to the procedures in the audit of Part I of Form 1, 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 Form 1.

4188. Test statements for a description of assets held in safekeeping

(1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* position record and client statements accurately describe the *securities*, precious metals bullion and other like assets held in *safekeeping*.

4189. Dealer Member obligations to auditor

(1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.

(2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.

(3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

4190. Calculations for Form 1 and other reporting

(1) The *auditor,* of a *Mutual Fund Dealer Member* that offers margin lending to clients or an *Investment Dealer Member*, must perform the procedures identified in the "Agreed-upon Procedures Report on compliance for insurance, segregation of investment products, and guarantee/guarantor relationships relied upon to reduce margin requirement during the year" in Form 1 and report on the results as at the fiscal year-end audit date.

(2) The *auditor,* of a *Mutual Fund Dealer Member* that does not offer margin lending to clients, must perform the procedures identified in the "Agreed-upon Procedures Report on compliance for insurance and segregation of cash and investment products" in Form 1 and report on the results as at the fiscal year-end audit date.

4191. Auditor's records

(1) The *Dealer Member's auditor* must retain a final copy of Form 1 and all audit working papers for seven years.

(2) All audit working papers for the two most recent years must be readily accessible.

(3) The *Dealer Member's auditor* must make all working papers available for review by the *Corporation* and the *Investor Protection Fund*.

4192. Auditor's obligation to report to the Corporation

(1) If during the regular conduct of an audit, the *Dealer Member's auditor* observes any material breach of *Corporation requirements* related to:

(i) calculating the *Dealer Member's* financial position,

(ii) handling and custody of *securities*, precious metals bullion and other like assets, or

(iii) maintaining adequate *records*,

the *Dealer Member's auditor* must report that breach to the *Corporation*.

(2) The *Dealer Member's auditor* must report to the *Corporation* on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member's risk adjusted capital* level.

4193. - 4199. Reserved.

RULE 4200 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

4201. Introduction

(1) Rule 4200 sets out the following *Dealer Member* general financial requirements:

Part A - Financial disclosure to clients
[sections 4202 through 4209]

Part B - General internal control requirements
[sections 4220 through 4225]

Part C - Pricing internal control requirements
[sections 4240 through 4244]

Part D - Calculation of prices on a yield basis
[sections 4260 through 4267]

Part E - Professional opinions
[sections 4270 through 4276]

PART A - FINANCIAL DISCLOSURE TO CLIENTS

4202. Introduction

(1) If a client so requests, a *Dealer Member* must disclose its financial position to the client to enable them to assess the *Dealer Member's* financial position. Part A of Rule 4200 sets out the requirements that a *Dealer Member* must comply with in order to present this information to the client in a complete and consistent manner.

4203. Summary statement of financial position available

(1) A *Dealer Member* must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

(2) The summary statement of financial position must be as at the *Dealer Member's* latest fiscal year-end date and based on its latest annual audited financial statements.

(3) An *Investment Dealer Member* must prepare the summary statement of financial position within 75 days of its fiscal year-end.

(4) A *Mutual Fund Dealer Member* must prepare the summary statement of financial position within 120 days of its fiscal year-end.

4204. Summary statement of financial position - contents

(1) A *Dealer Member's* summary statement of financial position must contain material information including details of the *Dealer Member's* assets, liabilities and financial statement capital, and be generated from within the *Corporation*'s regulatory financial filing system.

4205. Audited or unaudited summary statement of financial position

(1) The summary statement of financial position must either be:

(i) audited and accompanied by:

(a) a report prepared by the *Dealer Member's auditor* stating that it fairly summarizes the financial position of the *Dealer Member*, and

(b) notes disclosures specified by the *Dealer Member's auditor*,

or

(ii) unaudited and:

(a) generated from within the *Corporation*'s regulatory financial filing system using information from the most recent audited Form 1 of the *Dealer Member*,

(b) certified by the *Dealer Member's Chief Financial Officer*, and

(c) accompanied by note disclosures that at a minimum describe, management's responsibility for the summary statement of financial position, and the basis of accounting and restriction on the use of the summary statement of financial position.

4206. Publishing a summary statement of financial position

(1) If a *Dealer Member* publishes or circulates a summary statement of financial position in any document, 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.

4207. 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 with the *Dealer Member* within the past 12 months.

4208. Disclosures 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 summary statement of financial position, 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.

4209. 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 document or other medium, 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 summary statement of financial position, and

(b) a letter explaining why the statement is being sent.

4210. - 4219. Reserved.

PART B - GENERAL INTERNAL CONTROL REQUIREMENTS

4220. Introduction

(1) Part B of Rule 4200 sets out *Corporation requirements* for a *Dealer Member's internal controls* and risk management infrastructure. Effective *internal controls* will assist a *Dealer Member* not only in complying with *Corporation requirements* and *securities laws* but also in conducting its business with integrity and due regard to the interests of its clients.

4221. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4200:

"detective controls" *(contrôles de detection)*	Controls that discover, or increase the chances of finding, fraud or error, so the *Dealer Member* can take prompt corrective action.
"preventive controls" *(contrôles préventifs)*	Controls that prevent, or minimize the chances of, fraud and error.

4222. Adequate internal controls

(1) A *Dealer Member* must establish and maintain appropriate *internal controls*.

(2) The *Dealer Member's Executives* are responsible for ensuring adequate *internal controls* as part of their overall responsibility for managing the *Dealer Member's* operations.

(3) The *Dealer Member's Executives* must use best judgment in determining whether *internal controls* are adequate.

4223. Preventive controls

(1) When necessary, a *Dealer Member* must implement *preventive controls* based on the *Dealer Member's Executives'* view of the risk of loss and the cost-benefit relationship of controlling that risk.

4224. Written record

(1) A *Dealer Member* must maintain a detailed written *record* of its *internal controls*, including, at a minimum, the policies and procedures the *Dealer Member's Executives* have approved to provide reasonable assurance of compliance with all *Corporation requirements* relating to *internal controls*.

4225. Review and written approval of internal controls

(1) The *Dealer Member's Executives* must review a *Dealer Member's internal controls* for adequacy and suitability at least annually and more frequently as necessary or stipulated by *Corporation requirements*. They must approve a *Dealer Member's internal controls* in writing after each review.

4226. – 4239. Reserved.

PART C – PRICING INTERNAL CONTROL REQUIREMENTS

4240. Introduction

(1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that *investment products* 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 *investment products*. In Part C of Rule 4200, references to:

(i) *securities* include client and inventory positions in *securities* and *securities* used in financing transactions such as *security* borrow and lend, *repurchase agreement* and *reverse repurchase agreement* transactions,

(ii) *derivatives* include client and inventory positions in *derivatives,* and

(iii) precious metals bullion include client and inventory positions in precious metals bullion.

(2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its:

(i) long and short *security* positions,

(ii) long and short *derivative* positions, and

(iii) long precious metals bullion positions,

to ensure accurate profit and loss reporting in accordance with *Corporation requirements*.

(3) A *Dealer Member*'s policies and procedures must specifically address consistently pricing and verifying prices of *investment products*.

(4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in *investment product records* that it uses to prepare management reports for monitoring:

(i) inventory profit and loss,

(ii) its regulatory capital position, and

(iii) *segregation*.

(5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports' preparation. Conflicted *employees* must not be involved in *investment product* pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

4242. Independent price verification and adjustment

(1) A *Dealer Member* must verify its *security* and precious metals bullion prices at each month-end by comparing them with independent (third-party) pricing sources.

(2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).

(3) An appropriate *Executive* 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.

4243. Retention of supporting documents

(1) A *Dealer Member* must retain supporting documents to show that it has verified *security* and precious metals bullion pricing and made appropriate adjustments.

4244. Access to records

(1) *Dealer Member employees* involved in *security* and precious metals bullion trading must not have access to back-office *security* and precious metals bullion price *records*.

4245. - 4259. Reserved.

PART D – CALCULATION OF PRICES ON A YIELD BASIS

4260. Introduction

(1) Part D of Rule 4200 describes how to calculate a *security* price based on a *security*'s current market yield.

4261. Definitions

(1) The following term has the meaning set out below when used in Part D Rule 4200:

"regular delivery date" (*date de livraison normale*)	The settlement or delivery dates generally accepted in industry practice for a *security* in the market where the transaction occurs.

4262. 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 4264 through 4267.

4263. Exceptions

(1) Sections 4264 through 4267 do not apply to trades in:

(i) Government of Canada bonds and bonds guaranteed by the Government of Canada,

(ii) short-term bonds that have:

(a) an unexpired term to maturity of six months or less,

(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) bonds callable on future dates at varying prices, and

(iv) bonds callable at the issuer's option if the call date is not stated and the bonds are selling at a premium over call price.

4264. Unexpired term - bonds with unexpired terms to maturity up to and including 10 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 from the *regular delivery date*:

(i) 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.

4265. Unexpired term - bonds with unexpired terms to maturity over 10 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 from the month in which the *regular delivery date* occurs:

(i) 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.

4266. Calculating the price and price precision

(1) In calculating the price, the unexpired term must be expressed as years. To express the unexpired term in years:

(i) one day shall be deemed to be $1/30^{th}$ of one month, and

(ii) one month shall be deemed to be $1/12^{th}$ of one year.

(2) For all bond transactions between *Dealer Members* and its clients where the price has been determined using the calculation approach set out in either section 4264 or 4265, the price must be extended to three decimal places of precision.

4267. New issues

(1) Part D of Rule 4200 applies to new issues. The unexpired term to maturity is to start on the date that accrued interest, which is charged to the client, is calculated up to.

4268. - 4269. Reserved.

PART E - PROFESSIONAL OPINIONS

4270. Introduction

(1) Part E of Rule 4200 sets requirements relating to *professional opinion* (defined in section 4271) standards.

4271. Definitions

(1) The following terms have the meanings set out below when used in Part E of Rule 4200:

"Corporation standards" (*normes de l'Organisation*)	The disclosure standards in Part E of Rule 4200.
"disclosure document" (*document d'information*)	The same meaning as used in relevant *securities laws*.
"fairness opinion" (*avis sur le caractère equitable*)	A report of a *valuer* that contains the *valuer's* opinion as to the fairness, from a financial point of view, of a transaction.
"formal valuation" (*évaluation officielle*)	A report of a *valuer* that contains the *valuer's* opinion as to the value or range of values of the subject matter of the valuation.
"interested party" (*personne intéressée*)	The same meaning as used in relevant *securities laws*.
"prior valuation" (*évaluation antérieure*)	The same meaning as used in relevant *securities laws*.
"professional opinion" (*avis professionnel*)	A *formal valuation* or a *fairness opinion*.
"subject transaction" (*opération visée*)	Transactions including an insider bid, issuer bid, business combinations, or related party transaction as defined in relevant *securities laws*.
"valuer" (*évaluateur*)	The person who provides a *professional opinion*.

4272. Application

(1) The *Corporation standards* apply only to *professional opinions* that are prepared either:

(i) pursuant to a requirement of relevant *securities laws*, or

(ii) for the express purpose of publication in a *disclosure document* to be filed with any Canadian *securities regulatory authority* or delivered to *security* holders in connection with their consideration of the *subject transaction*.

(2) The *Corporation standards* do not apply to *professional opinions* that are either:

(i) rendered in connection with transactions other than the *subject transactions*, whether or not they are reproduced or summarized in a *disclosure document*, or

(ii) reproduced or summarized in a *disclosure document* in compliance with relevant *securities laws* for the disclosure of *prior valuations* in respect of an issuer.

4273. General requirement

(1) A *Dealer Member's professional opinion* in connection with a *subject transaction* must comply with the *Corporation standards*.

(2) A *Dealer Member's* compliance with the *Corporation standards*:

(i) must not substitute the professional judgment and responsibility of the *valuer*,

(ii) will not be considered compliant if it is not exercised along with professional judgment and responsibility regarding disclosure in a *professional opinion*, and

(iii) may not be appropriate if its strict compliance is not justified using professional judgment and responsibility.

4274. General disclosure

(1) *Professional opinions* prepared in connection with the *subject transactions* must provide disclosure that:

(i) enables the directors and *security* holders of the particular issuer to understand the principal judgments and principal underlying reasoning of the *valuer* in its *professional opinion*, and

(ii) form a reasoned view on the valuation conclusion or the opinion as to fairness expressed therein.

(2) In reaching a valuation or fairness conclusion, a *Dealer Member* must consider certain information such as, valuation approach, definition of value, key assumptions. That information is described in Part E of Rule 4200 and may be important and required to be disclosed in a *professional opinion*.

(3) If the *Dealer Member* receives any expressions of concerns relating to its proposed disclosure in a *professional opinion* that contain competitively or commercially sensitive information regarding an *interested party* or issuer:

(i) the *Dealer Member* may seek a decision of the special committee of the issuer's independent directors as to whether the perceived detriment to an *interested party* outweighs the benefit of disclosure of such information to the readers of the *professional opinion*, and

(ii) compliance of the *Dealer Member* with any such decision of a special committee will constitute compliance with the *Corporation standards* in respect of the matters that are the subject of the decision.

4275. Disclosure - formal valuations

(1) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in valuing other businesses in the same or similar industries as the business or issuer in question or similar transactions to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable *securities* involved in the *subject transaction*, and

(c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,

(ii) the date the *valuer* was first contacted in respect of the *subject transaction* and the date that the *valuer* was retained,

(iii) the financial terms of the *valuer's* retainer,

(iv) a description of any past, present or anticipated relationship between the *valuer* and any *interested party* or the issuer which may be relevant to the *valuer's* independence for purposes of relevant *securities laws*,

(v) the subject matter of the *formal valuation*,

(vi) the effective date of the *formal valuation*,

(vii) a description of any specific adjustments that have been made in the *valuer's* conclusions by reason of an event or occurrence after the effective date,

(viii) the scope and purpose of the *formal valuation*, including the following statement:

> "This formal valuation has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Name of Corporation] but [Name of Corporation] has not been involved in the preparation or review of this formal valuation",

(ix) a description of the scope of the review conducted by the *valuer*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *valuer*),

(x) a description of any limitation on the scope of review and the implications of such limitation on the *valuer's* conclusions,

(xi) a description of the business, assets or *securities* being valued sufficient to allow the reader to understand the valuation rationale and approach and the various factors influencing value that were considered,

(xii) definitions of the terms of value used in the *formal valuation* including but not limited to "fair market value", "market value" and "cash equivalent value”,

(xiii) the valuation approach and methodologies considered, including:

- (a) the rationale for valuing the business as a going concern or on a liquidation basis,
- (b) the reasons for selecting a particular valuation methodology, and
- (c) a summary of the key factors considered in selecting the valuation approach and methodologies considered,

(xiv) the key assumptions made by the *valuer*,

(xv) any distinctive material value that the *valuer* has determined might accrue to an *interested party*, whether this value is included in the value or range of values arrived at for the subject matter of the *formal valuation* and the reasons for its inclusion or exclusion,

(xvi) the following discussions or explanations:

- (a) a discussion of any prior bona fide offers or *prior valuations* or other material expert reports considered by the *valuer* pertaining to the subject matter of the transaction, or
- (b) if the *formal valuation* differs materially from any such *prior valuation*, an explanation of the material differences where reasonably practicable to do so

based on the information contained in the *prior valuation* or, if it is not reasonably practicable to do so, the reasons why it is not reasonably practicable to do so,

and

(xvii) the valuation conclusions reached and any qualifications or limitations to which such conclusions are subject.

(2) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* in connection with a *subject transaction* must disclose the following:

(i) Annual financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity for the most recently completed fiscal year as well as from the statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in financial position for the immediately preceding fiscal year.

(ii) Interim financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the most recent interim statement of financial position (if any), statement of profit or loss and other comprehensive income and statement of changes in equity for the current fiscal year and the comparable statements for the same interim period of the immediately preceding fiscal year.

(iii) Discussion of historical financial statements or financial position

(a) The *professional opinion* must include comments on material items or changes in the issuer's financial statements together with appropriate commentary on items which may have particular relevance to the *professional opinion* including but not limited to unusual capital structures, unrecognized tax-loss carry forwards and redundant assets.

(iv) Future oriented financial information

(a) To the extent that the *valuer* has relied upon future-oriented financial information, the *valuer* must disclose the future-oriented financial information, at least in summary form, unless otherwise determined by a decision of the special committee referred to in section 4274.

(b) To the extent that the future-oriented financial information relied upon by the *valuer* varies materially from the future-oriented financial information provided to the *valuer* by the issuer or the *interested party*, the *valuer* must disclose the

nature and extent of such differences and the rationale of the *valuer* supporting its judgments.

(v) Future oriented financial information assumptions

(a) To the extent that future-oriented financial information is relied upon (whether or not the future-oriented financial information itself is disclosed), key financial assumptions (such as sales, growth rates, operating profit margins, major expense items, interest rates, tax rates, depreciation rates), together with a brief statement supporting the rationale for each specific assumption, must also be disclosed, unless otherwise determined by a decision of the special committee referred to in section 4274.

(vi) Economic assumptions

(a) Any key economic assumptions having a material impact on the *professional opinion* must be disclosed, noting the authoritative source used by the *valuer*, including interest rates, exchange rates and general economic prospects in the relevant markets.

(vii) Valuation approach, methodologies and analysis

The *professional opinion* must set out:

(a) the valuation approach and methodologies adopted by the *valuer*,

(b) together with the principal judgments made in selecting a particular approach or methodology,

(c) a comparison of valuation calculations and conclusions arrived at through the different methods considered and the relative importance of each methodology in arriving at the overall valuation conclusion, and

(d) the information in clauses 4275(2)(viii) through 4275(2)(xii), if relevant for the valuation techniques used.

(viii) Discounted cash flow approach

(a) The *professional opinion* must include a discussion of all relevant qualitative and quantitative judgments used to calculate discount rates, multiples and capitalization rates.

(b) If the capital asset pricing model is used, disclosure must include the basis for determining the discount rate including the risk free rate, market risk premium, beta, tax rates and debt to equity capital structure assumed.

(c) The *valuer* must also disclose the basis for the determination of the terminal/residual value together with the underlying assumptions made.

(d) The source of the financial data which formed the basis of the discounted cash flow analysis, summary of major assumptions (if not already disclosed) and the details and sources of any economic statistics, commodity prices and market forecasts used in the valuation approach must also be disclosed.

(e) In addition, a summary of the sensitivity variables considered and the general results of the application of such sensitivity analysis must be disclosed along with an explanation of how such sensitivity analysis was used in the

determination of the range of valuation estimates resulting from the discounted cash flow approach.

(f) Where the nature of the future-oriented financial information and the subject matter of the valuation make it reasonably practicable and meaningful to do so, selected quantitative sensitivity analyses performed by the *valuer* must be disclosed to illustrate the effects of variations in the key assumptions on the valuation results.

(g) In determining whether quantitative sensitivity analyses would be meaningful to the reader of the *professional opinion*, the *valuer* must consider whether such analyses adequately reflects the *valuer's* judgment concerning the inter-relationship of the key underlying assumptions.

(ix) Asset based valuation approach

(a) The *professional opinion* must separately disclose the values of each significant asset and liability including off-statement of financial position items (unless otherwise determined by a decision of the special committee referred to in section 4274).

(b) If a liquidation based valuation approach has been utilized, the *professional opinion* must set out the liquidation values for each significant asset and liability together with summary estimates for significant liquidation costs.

(x) Comparable transaction approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant transactions involving businesses the *valuer* considers similar or comparable to the business being valued.

(b) Adequate disclosure must include the date of the transaction, a brief descriptive note, and relevant multiples implicit in the transaction which may include: earnings before interest and taxes multiples; earnings before interest, taxes, depreciation and amortization multiples; earnings multiples; cash flow multiples; and book value multiples; and take-over premium percentages.

(c) In the body of the *professional opinion* there must be a discussion of such transactions together with an explanation as to how such transactions were used by the *valuer* in arriving at a valuation conclusion with regard to the comparable transaction approach.

(xi) Comparable trading approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant publicly traded companies the *valuer* considers similar or comparable to the business being valued.

(b) Adequate disclosure must include the date of the market data, the relevant fiscal periods for the comparable company, a brief descriptive note regarding the comparable company and relevant multiples implicit in the trading data which may include: earnings before interest and taxes multiples; earnings before interest, taxes depreciation and amortization multiples; earnings multiples, cash flow multiples; and book value multiples.

(c) In the body of the *professional opinion* there must be a discussion as to the comparability of such companies, together with an explanation as to how such data was used by the *valuer* in arriving at a valuation conclusion with regard to the comparable trading approach.

(xii) Valuation conclusions

(a) The *valuer* must develop a final valuation range by using a single valuation methodology or some combination of value conclusions determined under different methodologies/approaches.

(b) The *professional opinion* must include a comparison of the valuation ranges developed under each methodology and a discussion of the reasoning in support of the *valuer's* final conclusion.

4276. Disclosure - fairness opinion

(1) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in providing *fairness opinions* in connection with transactions similar to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable *securities* involved in the *subject transaction*, and

(c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,

(ii) the date the *Dealer Member* was first contacted in respect of the *subject transaction* and the date that the firm was retained,

(iii) the financial terms of the *Dealer Member's* retainer,

(iv) a description of any past, present or anticipated relationship between the *Dealer Member* and any *interested party* which may be relevant to the *Dealer Member's* independence for purposes of providing the *fairness opinion*,

(v) the scope and purpose of the *fairness opinion*, including the following statement:

"This fairness opinion has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Amalco] but [Amalco] has not been involved in the preparation or review of this fairness opinion.",

(vi) the effective date of the *fairness opinion*,

(vii) a description of the scope of the review conducted by the *Dealer Member*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *Dealer Member*),

(viii) a description of any limitation on the scope of review and the implications of such limitation on the *Dealer Member's* opinion or conclusion,

(ix) a description of the relevant business, assets or *securities* sufficient to allow the reader to understand the rationale of the *fairness opinion* and the approach and various factors influencing financial fairness that were considered,

(x) a description of the valuation or appraisal work performed or relied upon in support of the *Dealer Member's* opinion or conclusion,

(xi) a discussion of any prior bona fide offer or *prior valuation* or other material expert report considered by the *Dealer Member* in coming to the opinion or conclusion contained in the *fairness opinion*,

(xii) the key assumptions made by the *Dealer Member*,

(xiii) the factors the *Dealer Member* considered important in performing its fairness analysis,

(xiv) the statement of opinion or conclusion as to the fairness, from a financial point of view, of the *subject transaction* and the supporting reasons, and

(xv) any qualifications or limitations to which the opinion or conclusion is subject.

(2) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* in connection with a *subject transaction* must include the following:

(i) a *fairness opinion* must include:

(a) a general description of any valuation analysis performed by the opinion provider, or

(b) specific disclosure of a valuation opinion of another *valuer* which is being relied upon,

(ii) the *fairness opinion* provider is not required to reach or disclose specific conclusions as to a valuation range or ranges in a *fairness opinion*,

(iii) the conclusion section of the *fairness opinion* must include specific reasons for the conclusion that the *subject transaction* is fair or not fair to *security* holders, from a financial point of view, and

(iv) support for each of these specific reasons described in clause 4276(2)(iii) must be contained in the body of the *professional opinion* in sufficient detail to allow the reader of the opinion to understand the principal judgments and principal underlying reasoning of the opinion provider in reaching its opinion as to the fairness of the transaction.

4277. - 4299. Reserved.

RULE 4300 | PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES

4301. Introduction

(1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

Part A.1 - General segregation requirements

[sections 4311 through 4314]

Part A.2 - Bulk segregation calculation

[sections 4315 through 4319]

Part A.3 – Investment products requiring segregation: usage restrictions and correcting segregation deficiencies

[sections 4320 through 4326]

Part A.4 - Minimum segregation policies and procedures

[sections 4327 through 4332]

Part B - Custody and related internal control requirements:

Part B.1 - General custody requirements

[sections 4340 through 4343]

Part B.2 - Acceptable securities locations

[sections 4344 through 4352]

Part B.3 - Written custodial agreement requirement

[sections 4353 and 4354]

Part B.4 - Confirmation and reconciliation requirements

[sections 4355 through 4361]

Part B.5 - Margin requirements

[sections 4362 through 4368]

Part C - Client free credit balance requirements

[sections 4380 through 4386]

4302. - 4309. Reserved.

PART A – SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS

4310. Definitions

(1) The following terms have the meaning set out below when used in Part A of Rule 4300:

"bulk segregation" (*dépôt fiduciaire en bloc*)	*Securities*, precious metals bullion and other like assets in *segregation* for a *Dealer Member's* clients that are not reserved for particular clients.

"net loan value" (*valeur de prêt nette*)	Of a *security* means: (i) for a long position, the *market value* of the *security* less any margin required, and (ii) for a short position, the *market value* of the *security* plus any margin required expressed as a negative number. Of a short *security* option position means, the *market value* of the option plus any margin required expressed as a negative number. Of a long precious metals bullion position means, the *market value* of the precious metals bullion less any margin required.
"qualifying hedge position" (*position de couverture admissible*)	For all the accounts of each client: (i) a long position in a *security*, and, (ii) a short position in a *security* issued or guaranteed by the same issuer of the *security* in clause (i) of this definition, where: (iii) 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 (iv) the *Dealer Member* is using the long position as collateral to cover the short position.
"segregated investment products" (*produits de placement détenus en dépôt fiduciaire*)	*Securities*, precious metals bullion and other like assets held in *segregation* by a *Dealer Member* for a client.

PART A.1 – GENERAL SEGREGATION REQUIREMENTS

4311. Introduction

(1) The general *segregation* requirements set out the requirements for a *Dealer Member* to segregate client fully paid and excess margin *securities*, precious metals bullion and other like assets.

4312. Fully paid and excess margin investment products requiring segregation

(1) A *Dealer Member* holding fully paid or excess margin *securities*, precious metals bullion and other like assets for a client must:

(i) segregate those *investment products* and

(ii) identify those *investment products* as being held in trust for that client.

(2) A *Dealer Member* must not use *segregated investment products* 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 section 5840.

(3) The *Corporation* may prescribe:

(i) how *segregated investment products* are held, and

(ii) how the amount or value of *segregated investment products* must be calculated.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4312 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4312:

4312. Fully paid and excess margin investment products requiring segregation

(1) A *Dealer Member* holding fully paid or excess margin *securities,* precious metals bullion and other like assets for a client must:

(i) *segregate* those *investment products*, and

(ii) identify those *investment products* as being held in trust for that client.

(2) A *Dealer Member* must not use *segregated investment products* for its own purposes except with the written consent of its client under the terms of a written *securities* loan agreement as detailed in Rule 4600.

(3) The *Corporation* may prescribe:

(i) how *segregated investment products* are held, and

(ii) how the amount or value of segregated *investment products* must be calculated.

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 *Dealer Member* 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 acceptable *segregation* location*.*

4314. Segregation of client investment products

(1) A *Dealer Member* holding *segregated investment products* must:

(i) segregate those *investment products* in bulk in accordance with sections 4315 through 4319, or as prescribed by the *Corporation*, or

(ii) segregate specific *investment products* for each client.

(2) A *Dealer Member* must not hold client assets in *bulk segregation* that are subject to a written *safekeeping* agreement.

PART A.2 - BULK SEGREGATION CALCULATION

4315. Steps for bulk segregation calculation

(1) A *Dealer Member* that segregates *investment products* in *bulk segregation* must, in accordance with sections 4316 through 4319:

(i) identify in its records the amount and kind of each *investment product* held for each client,

(ii) determine the *net loan value* and *market value* of *investment products* held in a client's account,

(iii) calculate the number of *segregated investment products* to be segregated in bulk,

(iv) determine the *investment products* to use to satisfy *segregation* requirements, and

(v) perform regular calculations and compliance reviews.

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

(1) A *Dealer Member* holding *investment product* positions in *bulk segregation* must determine for all *investment product* positions held for all accounts of each client:

(i) the *investment product* positions that are part of a *qualifying hedge position*,

(ii) the *net loan value* of the *investment product* positions that are eligible for margin (excluding *investment product* positions 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 the *investment product* positions that are not eligible for margin (excluding *investment product* positions that are part of a *qualifying hedge position*) less the aggregate amount, if any, by which those accounts are under margined as calculated in clause 4316(1)(ii).

(2) A *Dealer Member* must segregate the *net loan value* of the *investment product* positions calculated in clause 4316(1)(ii) and the *market value* of *investment product* positions calculated in clause 4316(1)(iii) for each client account.

(3) A *Dealer Member* is not required to segregate an amount of *investment product* positions greater than the *market value* of the *investment products* held for those accounts.

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) *Equity securities*

Number of *securities* required to be segregated	=	(aggregate loan value or *market value* of a class or series of *security* required to be segregated for each client in section 4316) ÷ (loan value or *market value* of one unit of the *security*)

(ii) *Debt securities*

Principal amount of *securities* required to be segregated	=	(aggregate loan value or *market value* of a class or series of *security* required to be segregated for each client in section 4316) ÷ (loan value or *market value* of each $100 principal amount of the *security*) x 100, rounded to lowest issuable denomination

4318. Determining segregated investment products to comply with segregation requirements

(1) A *Dealer Member* may choose any *investment products*, other than *derivatives*, from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *investment products* in a cash account be segregated before unpaid *investment products*.

(2) A *Dealer Member* that sells *investment products* required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) *Investment products* required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *investment products* by that client until settlement or value date.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4318 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4318:

4318. Determining segregated investment products to comply with segregation requirements

(1) A *Dealer Member* may choose any *investment products*, other than *derivatives*, from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *investment products* in a cash account be segregated before unpaid *investment products*.

(2) A *Dealer Member* that sells *investment products* required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) *Investment products* required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *investment products* by that client until settlement or value date.

(4) A *Dealer Member* that borrows or loans *securities* required to be segregated for a client must keep them segregated until the date the *securities* are borrowed or loaned.

4319. Frequency and review of bulk segregation calculation

(1) At least twice weekly, a *Dealer Member* must determine the *investment products* required to be segregated according to the calculations in Part A.2 of Rule 4300.

(2) A *Dealer Member* must conduct a daily review of *segregated investment products* for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the *Dealer Member* must correct it in accordance with the requirements of sections 4320 through 4326.

(3) Every day, a *Mutual Fund Dealer Member* that does not offer margin lending to clients must determine the *investment products* required to be segregated according to the calculations in Part A.2 of Rule 4300 and ensure that all client *investment product* positions it receives are segregated.

PART A.3 – INVESTMENT PRODUCTS REQUIRING SEGREGATION: USAGE RESTRICTIONS AND CORRECTING SEGREGATION DEFICIENCIES

4320. General restrictions

(1) A *Dealer Member* must:

(i) ensure that a *segregation* deficiency is not knowingly created or increased, and

(ii) not deliver *investment products* it holds against payment for the account of any client if those *investment products* are required to satisfy the *Dealer Member's segregation* requirements.

4321. Correcting segregation deficiencies

(1) If any *segregation* deficiency exists, the *Dealer Member* 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.

4322. Call loan segregation deficiency

(1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the *securities* or precious metals bullion within the *business day* following the day it determines the deficiency exists.

4323. Securities loan segregation deficiency

(1) A *Dealer Member* that determines it has a *securities* loan *segregation* deficiency must:

(i) recall the *securities* from the borrower, or

(ii) borrow the same issue of *securities* to cover the deficiency,

within the *business day* following the day it determines the deficiency exists.

(2) If the *Dealer Member* has not received the *securities* within five *business days* following the day it determines the deficiency exists, it must undertake to buy-in the *securities*.

4324. Inventory or trading account short position segregation deficiency

(1) A *Dealer Member* 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.

4325. Client declared short sales segregation deficiency

(1) A *Dealer Member* 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 the day it determines the deficiency exists, or

(ii) undertake to buy-in the same issue of *securities* within five *business days* following the day it determines the deficiency exists.

4326. Fails – client or other Dealer Members

(1) If a *Dealer Member* has failed to receive *investment products* within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:

(i) borrow the same issue of *investment products* to cover the deficiency, or

(ii) undertake to buy-in the *investment products*.

PART A.4 - MINIMUM SEGREGATION POLICIES AND PROCEDURES

4327. General

(1) A *Dealer Member* must, at a minimum, comply with the policies and procedures for *segregated investment products* in sections 4328 through 4332 and the supervision requirements in Rule 3900.

4328. Records of segregated investment products

(1) *Segregated investment products* must be described as being held in *segregation* on a *Dealer Member's security*, precious metals bullion or similar *investment product* position record (or related *records*) and client ledger and statement of account. This description must be in substance a fair representation of how the *investment products* are being held in *segregation* at the custodian and therefore, the box locations of the *Dealer Member* must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the *Dealer Member*.

4329. Report of items requiring segregation

(1) With the exception of the situation outlined in subsection 4329(2), a *Dealer Member* must produce a *segregation* report at least twice weekly.

(2) A *Mutual Fund Dealer Member* that does not offer margin lending to clients must produce a *segregation* report at least monthly.

4330. Reporting segregation deficiency

(1) A *Dealer Member* must set reasonable guidelines so that any material *segregation* deficiency is reported promptly to the *Dealer Member's* appropriate *Executives*.

4331. Authorized employees to move investment products

(1) A *Dealer Member* must limit who can move *segregated investment products* into or out of *segregation* to only authorized *employees*.

4332. Supervisory review of segregation report

(1) With the exception of the situation outlined in subsection 4332(2), a *Dealer Member must do a daily* supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.

(2) A *Mutual Fund Dealer Member* that does not offer margin lending to clients must do a monthly supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.

(3) A *Dealer Member* must do a supervisory review or adopt and implement other procedures that provide reasonable assurance the *segregation* report is complete and accurate.

4333. - 4339. Reserved.

PART B – CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS

PART B.1 – GENERAL CUSTODY REQUIREMENTS

4340. Introduction

(1) A *Dealer Member* takes on certain operational risks when it has custody of *securities*, precious metals bullion and other like assets These risks arise in connection with the location where and by whom they are held and whether a *Dealer Member* has adequate *internal controls* to deal with these risks. Part B of Rule 4300 prescribes *Corporation requirements* for managing the risks related to the custody of these types of *investment products*. As these risks are quantifiable, they are treated as margin charges when calculating *Dealer Member risk adjusted capital.* This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

4341. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4300:

"external acceptable securities location" (*lieu agréé de dépôt de titres externe*)	An *acceptable securities location* for *securities*, precious metals bullion and other like assets that are not under a *Dealer Member's* physical possession but which are under a *Dealer Member's* control.
"internal acceptable securities location" (*lieu agréé de dépôt de titres interne*)	An *acceptable securities location* for *securities*, precious metals bullion and other like assets that are in a *Dealer Member's* physical possession or physical control. *Internal acceptable securities locations* include acceptable transfer locations.
"set-off risk" (*risque de compensation*)	The risk exposure resulting when a *Dealer Member* has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the *investment products* held by the custodian.

4342. Hold investment products in an acceptable securities location

(1) A *Dealer Member* must hold *investment products* requiring custody, including book-based *securities*, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as "*acceptable securities locations*".

4343. Timely deposit

(1) A *Dealer Member* must deposit *investment products* requiring *segregation* in an *acceptable securities location* on a timely basis.

PART B.2 – ACCEPTABLE SECURITIES LOCATIONS

4344. Acceptable internal storage location

(1) *Investment product* positions in a *Dealer Member's* physical possession must be held in an internal storage location that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

4345. 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 *investment products*, and

(ii) hold all unencumbered *investment product* positions in the physical possession of the *Dealer Member*.

4346. Acceptable transfer locations

(1) *Investment products* 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 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

4347. Investment product positions not in a Dealer Member's physical possession

(1) *Investment product* positions not in a *Dealer Member's* physical possession but which are under a *Dealer Member's* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

4348. Entities that may be external acceptable securities locations

(1) Entities that may be *external acceptable securities locations* must comply with the *Corporation's requirements* prescribed in Rule 4300 and in Form 1. In Form 1, the entities that may qualify as *"acceptable securities locations"* are grouped into eight 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*, foreign institutions and foreign *securities* dealers, and entities considered suitable to hold London Bullion Market Association gold and silver good delivery bars.

4349. 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 *external acceptable securities location*, and

(iii) complete a certificate in the form prescribed by the *Corporation* evidencing its due diligence and approval.

4350. 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) Prior to submission to the *Corporation* the application must be approved by the *Dealer Member's* board of directors or by a committee of the *Dealer Member's* board of directors.

(3) The application to the *Corporation* must include the following:

Document	**Contents**	**Form** (if Corporation prescribed)
1. Foreign custodian certificate	1. *Dealer Member* responses to custodian due diligence questions 2. *Dealer Member* certification of approval of foreign custodian as a location for holding *investment products*	In a form satisfactory to the *Corporation*
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C$150 million	

4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

(1) For a foreign institution or foreign *securities* dealer to continue to be an *acceptable securities location*, the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must annually:

(i) approve in writing the foreign institution or foreign *securities* dealer, and

(ii) complete and sign a foreign custodian certificate for the foreign institution or foreign *securities* dealer.

(2) The *Dealer Member* must file the foreign custodian certificate with the *Corporation*.

(3) The annual approval by the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must be given as follows:

Document	**Contents**	**Notes**
Dealer Member's board material and foreign custodian certificate	*Dealer Member* board's or committee of the *Dealer Member* board's annual written approval of foreign custodian as foreign location for holding *investment products*	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*

(4) Without this written approval and filed foreign custodian certificate, the location is a non-acceptable securities location.

4352. Obtaining a client waiver when an external acceptable securities location is unavailable

(1) If a *Dealer Member* holds *investment product* positions for a client in a foreign jurisdiction where:

(i) *applicable laws* and circumstances may restrict the transfer of *investment product* positions from that jurisdiction, and

(ii) the *Dealer Member* cannot arrange to hold the client's *investment products* in the jurisdiction at an *external acceptable securities location*,

the *Dealer Member* must obtain a waiver from the client.

(2) The client's waiver in approved form must be obtained for each transaction.

(3) In the waiver, the client must:

(i) consent to the arrangement,

(ii) acknowledge the risks associated with holding *investment products* 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 *investment products*.

(4) On obtaining the waiver, a *Dealer Member* may hold those client *investment products* at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

PART B.3 - WRITTEN CUSTODIAL AGREEMENT REQUIREMENT

4353. Agreement with each external securities location

(1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:

(i) the *Dealer Member* must give prior written consent to any use or disposal of the *investment products*,

(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 *investment products* 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 the *Dealer Member* against losses due to the custodian's failure to return any *investment products* or other property it holds to the *Dealer Member*. However, the custodian's liability is limited to the *market value* of the *investment products* and other property at the time it was required to deliver them to the *Dealer Member*.

When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

(a) meet standard industry practice,

(b) be legally enforceable, and

(c) be of sufficient scope and in a form that is acceptable to the *Corporation*.

4354. Bare trustee custodial agreement

(1) For book-based *security* holdings in which a *Dealer Member* does not have a written custodial agreement with an *external acceptable securities location*, the *Dealer Member* is in compliance with section 4353 if the *Corporation*, as bare trustee for *Dealer Members*, has an approved form of custodial agreement with the custodian.

PART B.4 - CONFIRMATION AND RECONCILIATION REQUIREMENTS

4355. Investment products in transit

(1) If *investment products* 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 *investment products* are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation*.

4356. Confirmations from external acceptable securities locations

(1) A *Dealer Member* must receive a positive confirmation of all *investment product* positions annually at its fiscal year-end audit date from each *external acceptable securities location*.

(2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a *investment product* position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

4357. Confirmations from transfer locations in Canada

(1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location 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 transfer location within 45 *business days* of delivery.

(3) If the position remains unconfirmed after 45 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4358. Confirmations from transfer locations in the United States

(1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location 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 transfer location within 70 *business days* of delivery.

(3) If the position remains unconfirmed after 70 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4359. Confirmations from transfer locations outside Canada and the United States

(1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location 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 transfer location within 100 *business days* of delivery.

(3) If the position remains unconfirmed after 100 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4360. 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.

4361. Reconcile records for mutual funds and evidences of deposit

(1) A *Dealer Member* must, at least monthly, reconcile its *records* of *investment products* consisting of mutual funds and evidences of deposit with *records* provided by the issuing mutual fund or financial institution.

PART B.5 - MARGIN REQUIREMENTS

4362. Acceptable securities location

(1) For *investment products* a *Dealer Member* holds at an *acceptable securities location*, custodial related margin requirements only apply to unresolved differences.

4363. Margin charges – non-acceptable securities location

(1) For *investment products* a *Dealer Member* holds at a non-acceptable securities location, additional margin requirements prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4352.

4364. Non-acceptable internal storage and non-acceptable securities location

(1) If *investment products* are:

(i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, 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 *internal acceptable securities location* as specified in section 4345, or

(b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or

(c) there is no annual written approval of a foreign institution or foreign *securities* dealer as an *acceptable securities location* as specified in section 4351,

then, when it calculates *risk adjusted capital,* a *Dealer Member* must deduct 100% of the *market value* of the *investment products* held in custody with the non-acceptable securities location.

4365. No confirmation from location

(1) *Investment product* positions where the *Dealer Member* has not received:

(i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,

(ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or

(iii) a confirmation of a related stock split or stock dividend under subsection 4360(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 4365(1), the *Dealer Member* must:

(i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the *investment product* position *market value* and the normal inventory margin, and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4366. 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 *investment product* positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).

(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 *investment product* positions held in custody at the custodian.

(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 the *investment product* positions 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 *investment product* positions held in custody at the custodian, and

(II) 100% of the *market value* of *investment product* positions held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

4367. Records - reconciliation

(1) If a *Dealer Member* reconciles its *records* to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4361, the *Dealer Member* must provide margin based on the requirements in Form 1, Statement B, Line 24, Notes and Instructions for any unresolved differences.

(2) If a *Dealer Member* does not reconcile its *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 *investment products,* where there have been no transactions in the *investment products*, other than redemptions and transfers, for at least six months and no loan value has been given on the *investment products*, or

(b) 100% of the *market value* of the *investment products*,

and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4368. Difference accounts

(1) A *Dealer Member* must maintain a difference or suspense account to record all *investment product* positions not received due to unreconcilable differences or errors in any accounts.

(2) If a *Dealer Member* has not received the *investment product* positions recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:

(i) borrow the *investment product* position to cover the deficiency, or

(ii) undertake to purchase the *investment product* immediately.

4369. - 4379. Reserved.

PART C – CLIENT FREE CREDIT BALANCE REQUIREMENTS

4380. Introduction

(1) Part C of Rule 4300 sets our restrictions on a *Dealer Member's* use of clients' *free credit balances* in its business, when permitted under the *Corporation requirements*.

4381. Investment Dealer Member's use of client free credit balances

(1) An *Investment Dealer Member* may use its clients' *free credit balances* in its business only in accordance with sections 4383 to 4386.

4382. Mutual Fund Dealer Member's use of client free credit balances

(1) A *Mutual Fund Dealer Member* must keep its clients' cash:

(i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an *acceptable institution*, and

(ii) separate from other money the *Mutual Fund Dealer Member* receives.

(2) Despite subsection 4382(1), a Level 4 Dealer may use its clients' *free credit balances* in its business if it complies with the:

(i) minimum capital requirements in sub-clause 4111(3)(i)(f), and

(ii) client *free credit balance* usage limits and excess *free credit balance* segregation requirements in sections 4383 to 4386 and in Statement F and Schedule 2 of Form 1.

4383. Notation on client account statements

(1) A *Dealer Member* that uses client *free credit balances* within its business and that does not keep its clients' *free credit balances*:

(i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an *acceptable institution,* 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 free credit balances 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."

4384. Calculating usable free credit balances

(1) A *Dealer Member* that uses client *free credit balances* within its business must not use client *free credit balances* that total more than the greater of:

(i) general free credit limit:

twelve times the *Dealer Member's early warning reserve* amount, or

(ii) margin lending adjusted free credit limit:

twenty times the *Dealer Member's early warning reserve* amount for margin lending purposes plus twelve times the remaining *early warning reserve* amount for all other purposes, where the remaining *early warning reserve* amount equals the *early warning reserve* amount minus 1/20th of the total settlement date client margin debit amount.

(2) A *Dealer Member* that uses client *free credit balances* within its business must segregate client *free credit balances* that are in excess of the amount calculated in subsection 4384(1) either:

(i) in cash held in trust for clients in a separate account with a Canadian financial institution qualifying as an *acceptable institution*, and this trust property must be clearly identified as such at the *acceptable institution* or

(ii) in the following *securities*:

Securities eligible for client free credit segregation purposes			
Category		**Minimum designated rating organization current credit rating**	**Qualification(s)**
1.	Bonds, debentures, treasury bills and other *securities* with a term of 1 year or less, issued or guaranteed by the following: • national governments of Canada, United Kingdom, and United States • Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other *securities* with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a Basel Accord country
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No *designated rating organization* has a lower current credit rating Must be issued by a Canadian *chartered bank* *Securities* issued by a provider of capital, as defined in the notes and instructions to Schedule 14 of Form 1, are not eligible

4385. Weekly calculation

(1) At least weekly, but more frequently if required, a *Dealer Member* that uses client *free credit balances* within its business must calculate the amounts that must be segregated under section 4384.

4386. Daily compliance review and required action

(1) Every day, a *Dealer Member* that uses client *free credit balances* within its business must compare the amount of client *free credit balances* it has segregated to the amount subsection 4384(2) requires to be segregated.

(2) Every day, a *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must determine the amount that must be segregated under subsection 4382(1).

(3) A *Dealer Member* must identify and correct any deficiency in amounts required to be segregated under subsections 4382(1) or 4384(2) within one *business day* following the determination of the deficiency. Where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member*'s capital when calculating its *risk adjusted capital*.

4387. Designated trust account

(1) A *Dealer Member* must advise, in writing, the financial institution holding client cash segregated in trust pursuant to clause 4382(1)(i) or clause 4384(2)(i) that:

(i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a "trust account",

(ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the *Dealer Member*, and

(iii) the money held in trust may not be used to cover shortfalls in any other accounts of the *Dealer Member*.

4388. - 4399. Reserved.

RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND INVESTMENT PRODUCTS, AND INSURANCE

4401. Introduction

(1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Safekeeping requirements
[sections 4402 through 4407]

Part B - Internal controls requirements for safeguarding cash, *securities*, precious metals bullion and other like assets
[sections 4420 through 4434]

Part C - Insurance requirements
[sections 4450 through 4468]

PART A - SAFEKEEPING REQUIREMENTS

4402. Introduction

(1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

4403. Written safekeeping agreement

(1) A *Dealer Member* with *securities*, precious metals bullion or other like assets held for *safekeeping* must have a written *safekeeping* agreement with each client it holds those *investment products* for.

4404. Keep assets free from encumbrance

(1) A *Dealer Member* must keep *securities,* precious metals bullion or other like assets held for *safekeeping* free from any encumbrance.

4405. Procedures to keep assets apart

(1) A *Dealer Member* must keep *securities,* precious metals bullion or other like assets held for *safekeeping* separate from all other positions and must have procedures in place to ensure this separation.

4406. Identifying assets held for safekeeping in records

(1) A *Dealer Member* must specifically identify and record *securities*, precious metals bullion or other like assets held for *safekeeping* in its *securities*, precious metals bullion or similar *investment product* position *records* and client's ledger and statement of account.

4407. Release of assets held in safekeeping

(1) A *Dealer Member* may release *securities,* precious metals bullion or other like assets held for *safekeeping* to others only when the client so instructs.

4408. - 4419. Reserved.

PART B – INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH, SECURITIES, PRECIOUS METALS BULLION AND OTHER LIKE ASSETS

4420. Introduction

(1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

4421. Safeguarding client and Dealer Member cash, securities, precious metals bullion and other like assets

(1) A *Dealer Member* must safeguard its clients' and its own cash, *securities*, precious metals bullion and other like assets:

(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*'s policies and procedures must specifically address the minimum requirements for safeguarding cash, *securities*, precious metals bullion and other like assets 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 Rule 4400 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.

4422. Receipt and delivery of securities, precious metals bullion and other like assets

(1) *Employees* who receive and deliver physical *securities*, precious metals bullion and other like assets must not have access to the *Dealer Member's securities*, precious metals bullion or similar *investment product records*.

(2) The *Dealer Member* must handle *securities*, precious metals bullion and other like assets in a restricted and secure area.

(3) The receipt and delivery of *securities*, precious metals bullion and other like assets 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*, precious metals bullion and other like assets not delivered against payment.

4423. Restricting access to securities, precious metals bullion and other like assets

(1) Only designated *employees* may physically handle *securities*, precious metals bullion or other like assets.

(2) *Securities*, precious metals bullion and other like assets must be physically handled only in a restricted and secure area.

(3) Only *employees* not involved in maintaining or balancing *Dealer Member records* may handle physical *securities*, precious metals bullion or other like assets.

4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* 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 for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a cash and *security* loan agreement,

that has been executed in accordance with *Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4424 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4424:

4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* 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 for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written consent from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a *securities loan* agreement,

that has been executed in accordance with *Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

4425. Protecting securities, precious metals bullion and other like assets

(1) A *Dealer Member* must assess the risk of any location that holds *securities*, precious metals bullion or other like assets for it and for the accounts of its clients.

(2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository *records* (for instance, transfers between the "free" and "seg" boxes).

(3) At least monthly, a *Dealer Member* must reconcile its *records* of *security*, precious metals bullion and other like asset positions to the custodian's *records* where the positions are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.

(4) A *Dealer Member* must have a proper written custody agreement with each custodian where *securities*, precious metals bullion and other like assets are held for it or for the accounts of its clients and for which the *Dealer Member* is responsible.

4426. How to handle security, precious metals bullion and similar investment product records

(1) *Employees* maintaining and balancing *securities*, precious metals bullion and similar *investment product records* must not be involved in handling physical *securities*, precious metals bullion and other like assets.

(2) A *Dealer Member* must promptly update its *securities*, precious metals bullion and similar *investment product records* to reflect changes in location and ownership of *securities*, precious metals bullion and other like assets under its control.

(3) Journal entries made to *securities*, precious metals bullion and similar *investment product records* must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

4427. Rules for counting securities, precious metals bullion and other like assets

(1) At least once a year, a *Dealer Member* must count physical *securities*, precious metals bullion and other like assets held:

(i) in *segregation*, and

(ii) for *safekeeping,*

in addition to its annual external audit physical *securities,* precious metals bullion and other like assets count.

(2) At least monthly, a *Dealer Member* must count physical *securities*, precious metals bullion and other like assets held in current boxes.

(3) Only *employees* who do not handle *securities*, precious metals bullion and other like assets may conduct physical *securities*, precious metals bullion and other like assets counts.

(4) Count procedures must include all physical *securities*, precious metals bullion and other like assets held in the box location 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 *securities*, precious metals bullion and other like assets count, both the description of the asset 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 the *Dealer Member's* appropriate *Executives* and accounted for.

4428. Moving certificates, securities, precious metals bullion and other like assets 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.

(2) When *securities*, precious metals bullion or other like assets are in transit, a *Dealer Member* must book out the *securities*, precious metals bullion or other like assets from the branch account and book them into the transit account. When the *securities*, precious metals bullion or other like assets 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*, precious metals bullion or other like assets received against the accompanying transit sheet.

(4) The methods of transportation a *Dealer Member* chooses for *securities*, precious metals bullion or other like assets 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 authorized *employees* outside the transfer department should be able 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 the department manager or another appropriate manager 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) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4429 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4429:

4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name.

(3) Only fully paid *securities* may be transferred into a name other than the *Dealer Member's* name, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.

(4) The transfer department may carry out transfers only when it receives a properly authorized request.

(5) A *Dealer Member's security* position *record* must record, and name them as, "securities out for transfer".

(6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.

(7) A *Dealer Member* must prepare, and the department manager or another appropriate manager 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.

(8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

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.

(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) An authorized *employee* 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) Dividend and interest record keeping *employees* 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 another appropriate manager may authorize dividend and interest write-offs.

(5) The department manager or another appropriate 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 the department manager or another appropriate manager approve them.

(7) A *Dealer Member* must withhold non-resident tax when required by law.

(8) Where required by *applicable laws*, a *Dealer Member* must ensure client income is appropriately reported for income tax purposes.

4432. Reconciling internal accounts

(1) At least monthly, a *Dealer Member* must reconcile internal accounts.

(2) A department manager or another appropriate manager must review the reconciliation.

4433. Cash

(1) The department manager or another appropriate manager 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 a department manager or another appropriate manager.

(4) Bank accounts must be reconciled by *employees* who do not have:

(i) access to funds, either receipts or disbursements, or

(ii) access to *investment product* positions, or

(iii) record keeping responsibilities that include the authority to write or approve journal entries.

(5) An appropriate *Executive* 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) Blank cheques are properly safeguarded.

(8) Cheques must be signed by two authorized *employees*.

(9) The authorized *employees* must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque.

(10) A *Dealer Member* must limit and supervise access to any facsimile signature machine.

(11) A *Dealer Member* must limit the number of authorized employees permitted to withdraw funds from the bank accounts, including by way of electronic transfer.

4434. Trust accounts for client funds

(1) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must record all client cheques upon receipt and deposit the cheques to the trust account on the day of receipt. The *Mutual Fund Dealer Member* may deposit the cheque the following *business day*, if the cheque is received after normal business hours.

(2) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must balance deposits to the trust account daily against deposit records, receivable records and mutual fund settlement records.

(3) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must segregate interest received that is payable to clients in respect of cash held in trust for clients in accordance with subsection 4382(1).

4435. – 4449. Reserved.

PART C – INSURANCE REQUIREMENTS

4450. Introduction

(1) Part C of Rule 4400 requires a *Dealer Member* to have enough insurance to protect against potential losses from theft, fraudulent acts, and other losses.

4451. Definitions

(1) The following terms have the meanings set out below when used in Part C of Rule 4400:

"base amount" (*montant de base*)	The greater of: (i) the aggregate client net equity for all client accounts, where net equity for each client is the net value of cash, *securities*, precious metals bullion and other *investment products* held or controlled by the *Dealer Member* on behalf of clients, and (ii) the *Dealer Member's* total allowable assets calculated in accordance with Form 1, Statement A.
"standard form financial institution bond" (*police d'assurance des institutions financières standard*)	The standard form of Financial Institution Bond insurance coverage a *Dealer Member* must obtain.

4452. Dealer Member must have insurance

(1) A *Dealer Member* must have and maintain insurance:

(i) against the types of loss, and

(ii) with at least the minimum amount of coverage,

as prescribed in Part C of Rule 4400.

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.

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 statement of financial position,

(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.

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 *Dealer Member* is not required to have the mail insurance set out in subsection 4455(1).

4456. Financial institution bond

(1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:

(i) **Fidelity** - 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) **On premises -** Any loss of money, *securities*, precious metals bullion, 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 *standard form financial institution bond*.

(iii) **In transit -** Any loss of money and negotiable or non-negotiable *securities*, precious metals bullion or other property, while in transit. The value of *securities*, precious metals bullion 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*, precious metals bullion, or other property protected under this clause.

(iv) **Forgery or alterations -** 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 financial institution bond*.

(v) **Securities –** 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 financial institution bond*.

4457. Minimum insurance requirements

(1) Level 1, 2 and 3 Dealers and *Investment Dealer Members* that are Type 1 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $200,000, and

(ii) ½% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

(2) *Investment Dealer Members* that are Type 2 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $500,000, and

(ii) ½% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

(3) Level 4 Dealers and *Investment Dealer Members* that are self-clearing or Type 3 or 4 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $500,000, and

(ii) 1% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

4458. Reserved.

4459. Double aggregate limit

(1) A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

4460. Calculating minimum insurance requirement and risk adjusted capital provisions

(1) Every month, a *Dealer Member* must calculate its required minimum insurance coverage and file Schedule 12 of Form 1 with its *monthly financial report*.

(2) In calculating minimum insurance coverage requirements, a *Dealer Member* must treat non-negotiable and negotiable form *securities* as the same.

(3) When calculating its *risk adjusted capital* amount, a *Dealer Member* must provide capital for the amount of its insurance deductible.

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 two months of the filing date of the *monthly financial report* within which the deficiency was reported, or

(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.

4462. Global financial institution bonds

(1) If a *Dealer Member* maintains insurance under Part C 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 *standard form financial institution bond* 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*.

4463. Notify the Corporation of underwriter insurance termination

(1) A *Dealer Member's standard form financial institution bond* and mail insurance policies must require the underwriter to notify the *Corporation* at least 30 days before the underwriter terminates or cancels insurance coverage.

4464. When insurance ends due to take-over

(1) A *Dealer Member* taken over by another entity must ensure it has *standard form financial institution bond* 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.

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.

4466. Board of directors' review and designation

(1) A *Dealer Member*'s policies and procedures must require its board of directors or the executive committee of the *Dealer Member's* board of directors to:

(i) review and approve the insurance requirements and level of coverage at least annually, and

(ii) designate an appropriate *Executive* to be responsible for insurance matters.

4467. Executive review

(1) A *Dealer Member*'s policies and procedures must require the *Executive* responsible for insurance matters:

(i) review regularly the terms of the *Dealer Member's* insurance policies and design of the *Dealer Member's* operating procedures so that the *Dealer Member* is in compliance with those terms,

(ii) monitor business changes and evaluate the need for changes in coverage or operating procedures, and

(iii) monitor business operations so that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.

4468. Executive prompt action

(1) A *Dealer Member*'s policies and procedures must require the appropriate *Executive* to:

(i) take prompt action to avert or remedy any projected or actual insurance deficiency, and

(ii) notify the *Corporation* immediately of any deficiencies, pursuant to clause 4461(1)(ii).

4469. - 4499. Reserved.

RULE 4500 | FINANCING ARRANGEMENTS – REPURCHASE MARKET TRADING PRACTICES

4501. Introduction

(1) Rule 4500 sets out a standard set of trading practices to increase the transparency of the *repurchase agreement* or *reverse repurchase agreement* markets and to promote liquidity and efficiency in the markets.

4502. Definitions

(1) The following terms have the meaning set out below when used in Rule 4500:

"best efforts" (*au mieux*)	A *repurchase agreement* or *reverse repurchase agreement* trade where the buyer assumes the risk that the seller cannot deliver the *securities* within the specified time.
"CDSX" (*CDSX*)	The *CDS* clearing and settlement system comprising the Depository Service and the Settlement Service.
"forward repo" (*pension sur titres à terme*)	A *repurchase agreement* or *reverse repurchase agreement* trade that settles later than next day.
"general collateral" (*garantie générale*)	Government of Canada *debt* that is *CDSX* eligible, including real-return bonds and strips (residuals and coupons). For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date.
"inter-dealer broker" (*courtier intermédiaire*)	An organization that provides clients information, electronic trading and communications services for trading in wholesale financial markets.
"odd-lot" (*lot irrégulier*)	A lot less than $25 million for either: (i) overnight and term *general collateral*, or (ii) specials, both term and overnight.

4503. General

(1) A *Dealer Member* trading in the *repurchase agreement* or *reverse repurchase agreement* 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 as set out in Form 1.

4504. 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. 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 or collateral,

(ii) if a *Dealer Member* chooses to meet the margin call with cash, the cash must 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 *security* being repurchased or resold, be reasonably acceptable to the other party and be applied on a reasonable basis, and

(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.

4505. Forward repo trade confirmations

(1) A *Dealer Member* must send the client a confirmation of all *forward repo* trades on the trade date of the trade agreement.

(2) In addition to the disclosures set out in section 3816, the written confirmation must contain, at a minimum, the:

(i) money or par amount, as applicable,

(ii) start date,

(iii) end date,

(iv) interest rate,

(v) collateral type, and

(vi) any substitution rights.

(3) All *forward repo* trades must be confirmed on the *CDSX* system.

4506. Obligation to make coupon payments

(1) A *repurchase agreement* or *reverse repurchase agreement* seller must receive payment from the *repurchase agreement* or *reverse repurchase agreement* buyer of any income on the *securities* that the seller would have been entitled to if it had not entered the *repurchase agreement* or *reverse repurchase agreement* transaction.

(2) A *repurchase agreement* or *reverse repurchase agreement* buyer does not need to transfer an amount equal to the income payment to the *repurchase agreement* or *reverse repurchase agreement* seller, but can apply it to reduce the amount transferred to the *repurchase agreement* or *reverse repurchase agreement* buyer at the end of the transaction. All *repurchase agreements* or *reverse repurchase agreements* are priced this way, unless otherwise agreed.

4507. Substitutions

(1) A *repurchase agreement* or *reverse repurchase agreement* 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.

4508. General collateral repurchase agreement or reverse repurchase agreement allocations

(1) *General collateral* transactions in the *repurchase agreement* or *reverse repurchase agreement* 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 section 4508.

(2) Money-fill basis:

(i) *general collateral* transactions are completed on a money-fill basis as explained in clause 4508(2)(ii), 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, and

(iii) clause 4508(2)(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 *repurchase agreement* or *reverse repurchase agreement* trades must be done on a par basis.

4509. Confidentiality

(1) Subject to subsection 4509(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, and

(iv) subsections 4509(1) and 4509(2) do not prevent *Dealer Members* or *inter-dealer brokers* from asking or answering questions to determine the size of the bid or offer.

4510. - 4599. Reserved.

RULE 4600 | FINANCING ARRANGEMENTS – CASH AND SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for cash and *securities* loan, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions and includes:

(i) definitions,

(ii) general requirements,

(iii) written agreement requirement,

(iv) cash and *securities* loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty,*

(v) cash and *securities* loans between *regulated entities*, and

(vi) cash and *securities* loans with other counterparties.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rules section 4601 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4601:

4601. Introduction

(1) Rule 4600 covers requirements for *cash loans*, *securities loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions.

(2) Rule 4600 is divided into the following parts:

Part A – Definitions and General Requirements

[sections 4602 – 4609]

Part B – Specific Requirements

Part B.1 - Financing arrangements with certain counterparties

[section 4610- 4619]

Part B.2 - Borrowing retail clients fully paid and excess margin *securities*

[section 4620 – 4630]

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"overnight cash loan agreement" *(convention de prêt d'espèces à un jour)*	An oral or written agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
"Schedule I chartered bank" *(banque à charte de l'annexe I)*	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the *securities* loan transaction.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4602 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4602:

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"financing arrangement" *(financement)*	A *cash loan*, a *securities loan*, a *repurchase agreement*, or a *reverse repurchase agreement*.
"overnight cash loan agreement" *(convention de prêt d'espèces à un jour)*	An oral or written *cash loan* agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
"Schedule I chartered bank" *(banque à charte de l'annexe I)*	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the *cash loan* or *securities loan* transaction.

4603. General requirements

(1) **Marking to market**

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

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule clause 4603(1)(i) with the following, which, once approved, we will incorporate into the DC Rules to replace clause 4603(1)(i):

(i) Borrowed *securities* and loan 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 *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep financing accounts 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.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule subsection 4603(3) with the following, which, once approved, we will incorporate into the DC Rules to replace subsection 4603(3):

(3) **Loan accounts**

(i) A *Dealer Member* must keep *Dealer Member financing arrangement* accounts separate from *Dealer Member securities* trading accounts.

(ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from client *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.

4604. 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 section 5840.

(2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the *securities* at any time.

(3) If a *Dealer Member* does not have a written agreement for a *securities* loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4604 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4604:

4604. Written agreement requirements

(1) When a *Dealer Member* enters into a *financing arrangement* agreement, other than an *overnight cash loan agreement*, that agreement must be in writing and contain the minimum provisions described in this section.

(2) The agreement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.

(3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:

(i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or

(ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*

to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.

(5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and 9.

(6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

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 chartered bank* issues.

4606. Cash and securities loans between regulated entities

(1) If a cash or *securities* loan is between *regulated entities*:

(i) the *written cash and 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 cash or *securities*, and

(ii) they may use as collateral, a *Schedule I chartered bank* letter of credit.

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 4607(2) and 4607(3).

(2) *Securities* pledged as collateral must:

(i) be held by:

(a) the *Dealer Member* in *segregation*,

(b) an *acceptable clearing corporation*, 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 4607(2) or clause 4603(3)(i), its *net allowable assets* are subject to a charge calculated in the same manner as for client account short *securities* balances.

4608. - 4699. Reserved.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4605 to 4607 with the following, which, once approved, we will incorporate into the DC Rules to replace sections 4605 to 4607:

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities

(1) When a *cash loan* or *securities loan* is between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or a *regulated entity* they may use as collateral a *Schedule I chartered bank* letter of credit.

4611. - 4619. Reserved.

In CIRO Bulletin 24-0067, we propose adding into the IDPC Rule 4600 the following new sections, which, once approved, we will incorporate into the DC Rule 4600:

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

(1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:

(i) *retail clients*, or

(ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

(1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:

(i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and

(ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with

Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

(1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:

(i) the rights and responsibilities of each party to the agreement, including:

(a) the parties right to terminate the loan at any time upon prior notification

(b) the client's right to sell the loaned *securities* in a normal course of business,

(c) the client's right to the collateral in the event of the *Dealer Member*'s default, including the *Dealer Member*'s failure to recall the loaned *securities* within stipulated timeframes, and

(d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,

(ii) events of default,

(iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

(1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:

(i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and

(ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.

(2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

(1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.

(2) The collateral can be cash or, when so permitted by the *Corporation*, debt *securities* with a margin rate of 5% or less.

(3) The collateral value must at a minimum equal:

(i) 102% of the market value of the *securities* borrowed, for cash collateral, or

(ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the *Corporation* under subsection 4624(2).

(4) The collateral must be held in a form that is acceptable to the *Corporation*.

(5) The following are deemed acceptable forms of collateral holding:

(i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or

(ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

(1) The lending client cannot use the *securities* loaned under this Part B.2 of Rule 4600 in any hedging strategy while such *securities* are on loan.

(2) The borrowing *Dealer Member* or the lending client cannot reuse the assets, provided as collateral under section 4624 to secure the loan, for any other purposes.

4626. Recordkeeping

(1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

(1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Securities eligible for borrowing

(1) A *Dealer Member* can borrow under Part B.2. of Rule 4600 only *securities* held by clients in their non-registered accounts.

(2) The *Corporation* may further restrict the *securities* that a *Dealer Member* can borrow when it deems these further restrictions to be in the interest of the *Dealer Member*'s clients and the public.

(3) The *securities* eligibility restrictions are published on the *Corporation*'s website.

4629. Special audit report

(1) Upon the *Corporation*'s request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member*'s activity under Part B.2. of Rule 4600 and compliance with the *Corporation's requirements*.

4630. Additional requirements and restrictions

(1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems to be in the interest of the *Dealer Member*'s clients and the public and seek to further:

(i) increase the transparency of the lending activity,

(ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and

(iii) preserve market integrity.

4631. - 4699. Reserved.

[...]

RULE 5100 | MARGIN REQUIREMENTS – APPLICATION AND DEFINITIONS

5101. Introduction

(1) Rule 5100:

(i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],

(ii) sets out the permitted arrangements under which *Mutual Fund Dealer Members* may advance funds to clients [section 5112],

(iii) sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and

(iv) sets out the definitions used within Rules 5200 through 5900 [section 5130].

5102. - 5109. Reserved.

5110. Margin requirements - purposes

(1) The purposes of margin requirements are to:

(i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,

and

(ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading, investing or client account margin lending.

(2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

5111. Margin requirements - general application

(1) A *Dealer Member* must:

(i) obtain from and maintain for each of its clients, and

(ii) maintain for its own inventory accounts,

minimum margin in the amount and manner prescribed by the *Corporation*.

(2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.

(3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on *securities* owned and sold short when calculating its *risk adjusted capital*.

(4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the *security* or *derivative* position for which margin is being calculated.

5112. Advancing redemption proceeds and client margin lending by Mutual Fund Dealer Members

(1) A *Mutual Fund Dealer Member* may advance funds to a client in connection with the redemption of mutual fund *securities* where:

(i) the *Mutual Fund Dealer Member* has received prior confirmation of the redemption order from the issuer of the *securities*,

(ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided,

(iii) the client has authorized payment to and retention by the *Mutual Fund Dealer Member* of redemption proceeds,

(iv) the *Mutual Fund Dealer Member* maintains a copy of the confirmation of the redemption order and the client's authorization, and

(v) the *Mutual Fund Dealer Member* maintains a minimum capital amount of $50,000 or higher.

(2) A Level 4 Dealer may offer margin accounts and margin lending to clients if the *Mutual Fund Dealer Member* complies with the requirements for:

(i) margin accounts in sections 3245 to 3247,

(ii) the sending of account statements in section 3851,

(iii) minimum capital provisioning in sub-clause 4111(3)(i)(f),

(iv) the filing of an audited annual Form 1 within the timeline specified in sub-clause 4151(1)(i)(a),

(v) the filing of an agreed-upon procedures report as required under subsection 4190(1).

(vi) the segregation of fully paid and excess margin *securities* in sections 4310 to 4332,

(vii) the calculation of margin required for *client account margin* for *investment product* positions and position offsets in Series 5000,

(viii) the reporting of client account cash balances and margin required in Schedule 4 of Form 1, and

(ix) the calculation of the *securities* concentration charge in Schedules 11, 11A and 11B of Form 1.

5113. Application of margin requirements - Dealer Member inventory positions

(1) Section 5113 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.

(2) **Dealer Member long inventory margin**

A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of *security*, or

(ii) by any alternative method specified in the *Corporation requirements*.

(3) **Dealer Member short inventory margin**

A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of *security* (expressed as absolute value), or

(ii) by any alternative method specified in the *Corporation requirements*.

5114. Application of margin requirements – client account positions

(1) Section 5114 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.

(2) **Client accounts – loan value of long positions**

The *loan value* of a long position is generally calculated according to the formula:

(i) [100% – applicable margin rate %] x positive *market value* of the *security*, or

(ii) by any alternative method specified in the *Corporation requirements*.

(3) **Client accounts – loan value of short positions**

The *loan value* of a short client position is generally calculated according to the formula:

(i) [100% + applicable margin rate %] x negative *market value* of *security*, or

(ii) by any alternative method specified in the *Corporation requirements*.

(4) **Net loan value and status of a client account**

(i) The positive and negative *loan values* in a client margin account must be totalled.

(ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.

(iii) If the total *loan value* in a client account results in a net negative *loan value,* the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.

(iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

5115. Client securities that are collateral for a margin debt

(1) If a client is in debt to a *Dealer Member*, all *securities* the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.

(2) The *securities* a *Dealer Member* holds under subsection 5115(1) are collateral security subject to Form 1, Schedule 4 and to any agreement between the *Dealer Member* and the client.

5116. Dealer Member's rights in securities of indebted clients

(1) A *Dealer Member* has the right to:

(i) raise money on,

(ii) carry in its general loans, and

(iii) pledge and repledge,

the client *securities* it holds as collateral under section 5115.

5117. Dealer Member may buy or sell client securities

(1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:

(i) buy *securities* held short for an indebted client, or

(ii) sell *securities* it holds for an indebted client.

5118. Dealer Member's right to recover from indebted client

(1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's *securities*.

5119. Reserved.

5120. Margin requirements - when a rate is not specified

(1) Where a*n investment product* position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the *Corporation requirements*, the *Dealer Member* must obtain a margin rule interpretation from *Corporation* staff specifying the margin rate or requirement to be used.

[...]