RULES

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1 RULE 1A. APPLICATION, INTERPRETATION, EXEMPTIONS, AND DEFINITIONS

Application / Interpretation

(i) Requirements under these Rules apply to Dealer Members registered as mutual fund dealers under securities legislation except for mutual fund dealers only registered in Québec.

(ii) Notwithstanding paragraph (i), where a Dealer Member is registered under securities legislation as a mutual fund dealer and an investment dealer, the Dealer Member is exempt from these Rules provided they are in compliance with corresponding requirements established by the Corporation that are applicable to Investment Dealer Members.

Exemptions

The Board of Directors may exempt any Member, Approved Person, or any other person subject to the jurisdiction of the Corporation from the requirements of any Rule provided that the Board is satisfied that doing so would not be prejudicial to the interests of Members, their clients, or the public. In granting an exemption, the Board may impose any terms or conditions that it considers necessary.

Definitions

In these Rules unless the context otherwise specifies or requires:

"**affiliate**" or "**affiliated corporation**" means in respect of two corporations, either corporation if one of them is the subsidiary of the other or if both are subsidiaries of the same corporation or if each of them is controlled by the same person;

"**Appointments Committee**" means the committee, appointed in accordance with Rule 7.1.6, composed of:

(i) four members of the Governance Committee established by the Board, including its Chair, as set out in General By-law No.1, section 12.2,
(ii) two Non-Independent Directors of the Board as set out in General By-law No.1, section 1.1, and
(iii) the President of the Corporation as set out in General By-law No. 1, section 1.1.

"**Approved Person**" means an individual who is a partner, director, officer, compliance officer, branch manager, or alternate branch manager, employee or agent of the Member who (i) is registered or permitted, where required by applicable securities legislation, by the securities commission having jurisdiction, or (ii) submits to the jurisdiction of the Corporation;

"**assets under administration**" means the assets under administration of the business of a Member as prescribed by the Board of Directors from time to time;

"**branch office**" means any office or location from which any dealer business of a Member is conducted;

"**By-laws**" means any By-law of the Corporation from time to time in force and effect;

"**carrying dealer**" means a Member or Investment Dealer Member that carries customer accounts in accordance with Rule 1.1.6 to the extent, at a minimum, of clearing and settling trades, maintaining books and records of customer transactions and the holding of client cash, securities and other property;

"**client name**" means in respect of an account or client property, an account established by a Member for a client in accordance with the By-laws and Rules, and the cash, securities or other property held for such account, where the cash, securities and property is held in the name of and by a person other than the Member, its agent or custodian;

"**control**" or "**controlled**", in respect of a corporation by another person or by two or more corporations, means the circumstances where:

(a) voting securities of the first-mentioned corporation carrying more than 50% of the votes for the election of directors are held, other than by way of security only, by or for the benefit of the other person or by or for the benefit of the other corporations; and

(b) the votes carried by such securities are entitled, if exercised, to elect a majority of the Board of Directors of the first-mentioned corporation,

but where the Board of Directors orders that a person shall, or shall not, be deemed to be controlled by another person, then such order shall be determinative of their relationships in the application of the By-laws, Rules~~, Policies~~ and Forms with respect to that Member;

"**Corporation**" means [Name of New SRO];

"**Form 1**" means the Form 1 prescribed for Members;

"**hearing committee**" means a hearing committee of a District appointed in accordance with Rule 7.1;

"**Hearing Panel**" means a ~~in respect of a Regional Council a~~ hearing panel ~~of a Regional Council~~ appointed pursuant to Rule 7.2~~Section 19.9.~~;

"**individual**" means a natural person;

"**industry member**" means a current or former director, officer, partner or employee of a Member, or an individual who is otherwise suitable and qualified for appointment to a hearing committee.

"**introducing dealer**" means a Member that introduces customer accounts to a carrying dealer in accordance with Rule 1.1.6;

"**Investment Dealer Member**" means a Dealer Member that is registered as an investment dealer in accordance with securities legislation;

"**Member**" means a Dealer Member that is registered as a mutual fund dealer in accordance with securities legislation;

"**monitor**" means a person or company appointed to oversee and report on a Member's activities and to act in furtherance of powers granted by a Hearing Panel;

"**mutual fund dealer**" means a person registered or licensed by a securities commission to deal in mutual fund or investment fund securities, other than a securities dealer;

"**nominee name**" means, in respect of an account or client property, other than client cash held in a trust account of a Member, an account established by a Member for a client in accordance with the By-laws and Rules in which the securities or other property is held by the Member, its agent or its custodian in the name of the Member or its agent or its custodian, for the benefit of the client;

"**Notice of Hearing**" means a notice of hearing given pursuant to ~~Section 20.1~~Rule 7.3.1;

"**ownership interest**" means all direct or indirect ownership of the securities of a Member;

"**public member**" means, in relation to a hearing committee:

(i) a current or retired member of the law society of a province, other than Québec, who is in good standing at the law society, or

(ii) in Québec, a current or retired member of the Barreau du Québec, who is in good standing at the Barreau;

"**records**" means, for the purposes of ~~Section 22~~Rule 6.2~~, Section XX~~, recorded information of every description of a Member or Approved Person of the Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or Rules, including all books of accounts, securities, cash, documents, banking and investment account records, trading and supervisory records, client files and records, accounting and financial statements, audio and video recording, data, minutes, notes and correspondence, whether written, electronically stored or recorded by any other means;

"**related Member**" means a partnership or corporation which:

(a) is a Member; and

(b) is related to a Member in that either of them, or their respective partners, directors, officers, shareholders and employees, individually or collectively, have at least a

20% ownership interest in the other of them, including an interest as a partner or shareholder, directly or indirectly, and whether or not through holding companies;

provided that the Board of Directors may, from time to time, include in, or exclude from this definition any person, and change those included or excluded;

"**Rules**" means these Rules made pursuant to ~~Section 25~~~~the By-laws of the Corporation~~ General By-law No.1 and any Forms prescribed thereunder applicable to Members and Approved Persons;

"**securities commission**" means in any jurisdiction in Canada, the commission, person or other authority authorized to administer any legislation relating to trading in securities and/or to the registration or licensing of persons engaged in trading securities;

"**securities legislation**" means any legislation relating to trading in securities in Canada enacted by the Government of Canada or any province or territory of Canada and includes all regulations, rules, orders or other regulatory directions made pursuant thereto by any authorized body including, without limitation, a securities commission;

"**securities related business**" means any business or activity (whether or not carried on for gain) engaged in, directly or indirectly, which constitutes trading or advising in securities for the purposes of applicable securities legislation in any jurisdiction in Canada, including for greater certainty, securities sold pursuant to exemptions under applicable securities legislation;

"**sub-branch**" means any branch office having in total less than 4 Approved Persons and supervised by an Approved Person as required under the Rules who is not normally present at such sub-branch office;

"**subordinated debt**" means any debt the terms of which specify that its holder will not be entitled to receive payment if any payment to any holder of a senior class of debt is in default;

"**subsidiary**", in respect of a corporation and another corporation, means the first mentioned corporation if:

(a) it is controlled by:

(i) that other; or

(ii) that other and one or more corporations each of which is controlled by that other; or

(iii) two or more corporations each of which is controlled by that other; or

(b) it is a subsidiary of a corporation that is that other's subsidiary;

1 RULE 1 - BUSINESS STRUCTURES AND QUALIFICATIONS

1.1 Business Structures

1.1.1 Members

No Member or Approved Person (as defined in ~~By-law 1.1~~Rule 1A) in respect of a Member shall, directly or indirectly, engage in any securities related business (as defined in ~~By-law 1.~~Rule 1~~1~~) except in accordance with the following:

(a) all such securities related business is carried on for the account of the Member, through the facilities of the Member (except as expressly provided in the Rules) and in accordance with the By-laws and Rules, other than:

(i) such business as relates solely to trading in deposit instruments conducted by any Approved Person not on account of the Member; and

(ii) such business conducted by an Approved Person as an employee of a 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 legislation.

(b) all revenues, fees or consideration in any form relating to any business engaged in by the Member is paid or credited directly to the Member and is recorded on the books of the Member;

(c) the relationship between the Member and any person conducting securities related business on account of the Member is that of:

(i) an employer and employee, in compliance with Rule 1.1.4,

(ii) a principal and agent, in compliance with Rule 1.1.5, or

(iii) an introducing dealer and carrying dealer, in compliance with Rule 1.1.6;

(d) the business or trade or style name under which such securities related business is conducted is in accordance with Rule 1.1.7.

1.1.2 Compliance by Approved Persons

Each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1.(c)(i) or (ii) shall comply with the By-laws and Rules as they relate to the Member or such Approved Person.

1.1.3 Service Arrangements

A Member or Approved Person may engage the services of any person including another Member or Approved Person, to provide services to the Member or Approved Person, as the case may be, provided that:

(a) the services do not in themselves constitute securities related business or duties or responsibilities that are required to be performed by the Member or Approved Person engaging the services pursuant to the By-laws, Rules or applicable securities legislation;

(b) any remuneration or compensation in any form in respect of such services shall only be paid or credited by the Member or Approved Person engaging the services, as the case may be, directly to the person providing the services and the payment or credit of such remuneration or compensation shall be recorded in the books and records required to be maintained in accordance with the By-laws and Rules by the Member or Approved Person engaging such services;

(c) the Member or Approved Person engaging the services shall remain responsible for compliance with the By-laws and Rules and any applicable legislation;

(d) any person preparing and maintaining books and records as a service in respect of the business of the Member or Approved Person shall do so in accordance with the requirements of Rule 5, and such books and records shall be available for review by the Member or Approved Person during normal business hours and by the Corporation in accordance with the By-laws and Rules; and

(e) all material terms of the services to be engaged that relate to requirements of the Member or Approved Person under the By-laws, Rules ~~, Policies~~ or Forms shall be evidenced in writing and a copy of such terms, together with any amendments thereto from time to time or termination, shall be provided by the Member or Approved Person promptly to the Corporation upon request, together with any other information relating thereto as may be requested by the Corporation.

1.1.4 Employees

A Member may conduct its business by Approved Persons employed as employees by it provided that:

(a) any such employee is registered or licensed, in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the employee proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the employee as an Approved Person in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the employee relating to the Member's business;

(d) the employee is in compliance with the legislation, By-laws and Rules applicable to the employee as an Approved Person; and

(e) where the Member and the Approved Person employed as an employee have entered into a written agreement, it shall not contain provisions which are inconsistent with an employment relationship or with the requirements set out in paragraphs (a) to (d) inclusive, of Rule 1.1.4.

1.1.5 Agents

A Member may conduct its business by Approved Persons retained or contracted by it as agents provided that:

(a) any such agent is registered or licensed in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the agent proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the agent in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the agent relating to the Member's business;

(d) the agent is in compliance with the legislation, By-laws and Rules applicable to the agent;

(e) the financial institution bonds and insurance policies required to be maintained by the Member pursuant to Rule 4 cover and relate to the conduct of the agent;

(f) all books and records prepared and maintained by the agent in respect of such business of the Member shall be in accordance with Rule 5 and applicable legislation, shall be the property of the Member and shall be available for review by and delivery to the Member during normal business hours;

(g) all such business conducted by the agent is in the name of the Member subject to the provisions of Rule 1.1.7;

(h) the agent shall not conduct securities related business with or in respect of any person other than the Member;

(i) if the agent is engaged in or carrying on any business or activity other than business conducted on behalf of the Member, including any business or activity which is subject to regulation by any regulatory authority other than a securities commission, compliance with the terms of the agreement referred to in paragraph (k) shall be

monitored and enforced directly by the Member and not by or through any other person including another employer or principal of the agent;

(j) the terms or basis on which the agent may be engaged in or carry on any business or activity other than business conducted on behalf of the Member shall not prevent or impair the ability of the Member or the Corporation from monitoring and enforcing compliance by the agent with the terms of the agreement referred to in paragraph (k) or the By-laws or Rules; and

(k) the Member and the agent shall have entered into an agreement in writing, which shall be provided promptly to the Corporation upon request, containing terms which include the provisions of paragraphs (a) to (j), inclusive, and which do not include provisions which are inconsistent with paragraphs (a) to (j), and shall provide the Corporation with a certificate signed by an officer or director of such Member and, upon request by the Corporation, shall provide an opinion of counsel, confirming the agreement is in compliance with such provisions.

1.1.6 Introducing and Carrying Arrangement

(a) **Member Carrying Dealer**. A Member may enter into an arrangement with another Member pursuant to which the accounts of one Member (the "introducing dealer") are carried by the other Member (the "carrying dealer") provided that:

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(i) the arrangement shall satisfy the requirements of a carrying arrangement described in Rule 1.1.6(b);

(ii) an introducing dealer may not introduce accounts to more than one Member, except that a Level 2, 3 or 4 Member may introduce to another Member accounts of clients which are self-directed plans registered for income tax purposes;

(~~v~~iii) the Members shall enter into a written agreement evidencing the arrangement and reflecting the requirements of Rule 1.1.6(b) and such other matters as may be required by the Corporation;

(iv) the arrangement (including the form of agreement referred to in Rule 1.1.6(b)) and any amendment to or termination of the arrangement or agreement, shall have been approved by the Corporation before it is to become effective; and

(v~~i~~) the arrangement shall be in compliance with the Rules and the securities legislation applicable to either of the Members

(b) **Terms of Arrangement**. A Member may enter into an agreement with another Member in accordance with Rule 1.1.6(a) if it satisfies the following requirements:

(i) *Minimum Capital*. The carrying dealer shall maintain at all times minimum capital of a Level 4 Dealer, and the introducing dealer shall maintain at all times minimum capital of a Level 1, 2, 3 or 4 Dealer, as the case may be;

(ii) *Reporting of Client Balances*. In calculating the risk adjusted capital required pursuant to Rule 3.1.1 and Form 1, the carrying dealer shall report all accounts of the clients (introduced by the introducing dealer to the carrying dealer and for whom assets are held in nominee name) on the carrying dealer's Form 1 and Monthly Financial Report;

(iii) *Comfort Deposit*. Any deposit (other than deposits on behalf of clients) provided to the carrying dealer by the introducing dealer pursuant to the terms of the agreement between them shall be segregated in accordance with Rule 3.3 by the carrying dealer and shall be held by the carrying dealer in a separate designated trust account for the introducing dealer;

The deposit provided by the introducing dealer to the carrying dealer shall be reported by the introducing dealer as an allowable asset on its Form 1 and Monthly Financial Report;

(iv) *Segregation of Client Cash and Securities*. The carrying dealer shall be responsible for holding and segregating in accordance with the requirements of Rule 3.3 all cash and securities held for clients introduced to it by an introducing dealer, provided that a Level 3 introducing dealer may hold cash, and a Level 4 introducing dealer may hold cash and securities, for the accounts of clients to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(v) *Trust Accounts*. The carrying dealer shall be responsible for and shall maintain in its name any trust accounts established in respect of cash received for the account of clients introduced to it by the introducing dealer, provided that a Level 3 or 4 introducing dealer may hold cash in such trust accounts to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(vi) *Insurance*. The introducing dealer and carrying dealer shall each maintain minimum insurance in the amounts required and in accordance with Rule 4;

(vii) *Amount of Insurance*. The carrying dealer shall include all accounts introduced to it by the introducing dealer that are held in nominee name in its calculation of the "base amount" asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 4;

(viii) *Disclosure and Acknowledgement on Account Opening*. At the time of opening each client account, the introducing dealer shall ensure that the client receives written disclosure explaining the introducing dealer's relationship to the carrying dealer and the relationship between the client

and the carrying dealer and, in the case of a Level 1 introducing dealer, shall obtain from the client an acknowledgement in writing to the effect that such disclosure has been received by the client;

(ix) *Contracts, Account Statements, Confirmations and Client Communications*. The name and role of each of the carrying dealer and the introducing dealer shall be shown on all contracts, account statements, confirmations and, in the case of a Level 1 introducing dealer, all client communications (as defined in Rule 2.8.1) and advertisements and sales communications (as defined in Rule 2.7.1) sent by either the introducing dealer or the carrying dealer in respect of accounts carried by the carrying dealer. In the case of a Level 1 introducing dealer, the name and role of the carrying dealer shall appear in at least equal size to that of the introducing dealer. The use of business or trade or style names shall be in accordance with Rule 1.1.7 as applicable;

(x) *Annual Disclosure*. A Level 1, 2, 3 or 4 introducing dealer may comply with the disclosure requirements under paragraph (ix) by providing written disclosure at least annually to each of its clients whose accounts are being carried by the carrying dealer, outlining the relationship between the introducing dealer and the carrying dealer and the relationship between the client and the carrying dealer;

(xi) *Clients Introduced to the Carrying Dealer*. Each client introduced to the carrying dealer by the introducing dealer shall be considered a client of the carrying dealer for the purposes of complying with the ~~By-laws and~~ Rules to the extent of the services provided by the carrying dealer;

(xii) *Responsibility for Reporting*. The carrying dealer shall be responsible for sending account statements and confirmations to clients introduced to it by the introducing dealer as required by the ~~By-laws and~~ Rules to the extent such statements and confirmations relate to trading or account positions in respect of which the carrying dealer has provided services. The carrying dealer need not send a written confirmation of a trade 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 Rule 5.4.3; and

(xiii) *Responsibility for Compliance*. Unless otherwise specified in Rule 2 or in this Rule 1.1.6, the introducing dealer which is a Level 1 Dealer and its carrying dealer shall be jointly and severally responsible for compliance with the ~~By-laws and~~ Rules for each account introduced to the carrying dealer by the introducing dealer, and in all other cases the introducing dealer shall be responsible for such compliance, subject to the carrying dealer being also responsible for compliance with respect to those functions it agrees to perform under the arrangement entered into under this Rule 1.1.6.

(c) **Investment Dealer Member Carrying Dealer**. A Member may introduce accounts to an Investment Dealer Member subject to the following:

(i) where the business being carried by the Investment Dealer Member is limited to exchange-traded funds, or platform-traded funds, and does not represent a significant portion of the Member's overall business, the Member shall comply with requirements established by the Corporation that are applicable to Members;

(ii) where a significant portion of the Member's business or business other than trading in exchange traded funds or platform-traded funds is being carried by the Investment Dealer Member, the Member shall comply with requirements established by the Corporation that are applicable to Investment Dealer Members.

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1.1.7 Business Names, Styles, Etc.

(a) **Use of Member Name**. Except as permitted pursuant to Rule 1.1.6 with respect to introducing dealers and carrying dealers and subject to Rule 1.1.7(b) and (c), all business carried on by a Member or by any person on its behalf shall be in the name of the Member or a business or trade or style name owned by the Member or an affiliated corporation of the Member.

(b) **Contracts, Account Statements and Confirmations**. Notwithstanding the provisions of paragraph (a), the legal name of the Member shall be included on any contracts, account statements or confirmations of the Member.

(c) **Use of Approved Person Trade Name**. Notwithstanding the provisions of paragraph (a), an Approved Person may conduct any business of the Member in a business or trade name or style name that is not that of, or owned by, the Member or its affiliated corporation if:

(i) the Member has given its prior written consent; and

(ii) in all materials communicated to clients or the public (other than contracts, account statements or confirmations in accordance with (iii)):

(A) the name is used together with the Member's legal name; and

(B) the Member's legal name or a business or trade or style name of the Member is at least equal in size and prominence to the business or trade or style name used by the Approved Person;

(iii) on contracts, account statements or confirmations, the Member's legal name must be at least equal in size and prominence to the business or trade or style name used by the Approved Person.

(d) **Notification of Trade Names**. Prior to the use of any business or style or trade names other than the Member's legal name, the Member shall notify the Corporation.

(e) **Compliance with Applicable Legislation**. Any business or trade or style name used by a Member or Approved Person must comply with the requirements of any applicable legislation relating to the registration of business or trade or style names.

(f) **Single Use of Trade Names**. No Member or Approved Person of such Member shall use any business or trade or style name that is used by any other Member, unless the relationship with such other Member is that of an introducing dealer and carrying dealer, in compliance with Rule 1.1.6.

(g) **Misleading Trade Name**. No Member or Approved Person shall use any business or trade or style name that is deceptive, misleading or likely to deceive or mislead the public.

(h) **Prohibition of Use of Trade Name**. The Corporation may prohibit a Member or Approved Person from using any business or trade or style name in a manner that is contrary to any provision of this Rule 1.1.7 or that is objectionable or contrary to the public interest.

1.2 Individual Qualifications

(1) **Definitions.** For the purposes of this Rule and ~~Policy~~ Rule No. 900,

(a) "continuing education program" ("CE program") means the ~~MFDA's~~ Mutual Fund Dealer Continuing Education program.

(b) "Business Conduct Credit" means one hour of continuing education activity in a business conduct topic area, as prescribed under ~~Policy No.~~ Rule 900.

(c) "cycle" means any 24-month period beginning on December 1st of an odd-numbered year.

(d) "~~MFDA~~ Compliance Credit" means a continuing education activity in an ~~MFDA~~ Mutual Fund Dealer Compliance topic area, as prescribed under Policy No. 900.

(e) "Professional Development Credit" means one hour of continuing education activity in a professional development topic area, as prescribed under ~~Policy No. 9~~Rule 900.

(2) The ~~MFDA~~ CE Program referred to in subsection (1)(a) above, consists of the following components: (i) business conduct; (ii) professional development; and (iii) ~~MFDA~~ Mutual Fund Dealer compliance.

1.2.1 Compliance with Corporation Requirements

Each Member shall ensure that any Approved Person executes and delivers to the Member an agreement in a form as prescribed from time to time by the Corporation agreeing, among other things, to be subject to, comply with and be bound by the By-laws and Rules.

1.2.2 Registration

An Approved Person must have satisfied any applicable proficiency and other registration requirements set out in securities legislation and established by the securities regulatory authority having jurisdiction.

1.2.3 Education, Training and Experience

An Approved Person must not perform an activity that requires registration under securities legislation unless the Approved Person has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

1.2.4 Training and Supervision

(1) **General**. A Member must provide training to its Approved Persons on compliance with ~~MFDA~~ Corporation requirements, securities laws, and applicable laws including, without limitation, requirements under Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), 2.2.6 (Suitability), and 2.1.4 (Identifying, Addressing, and Disclosing Material Conflicts of Interest);

(2) **New Registrant Training and Supervision**. Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective.

1.2.5 Misleading Communications

(1) An Approved Person must not hold themselves out, and a Member must not hold itself or its Approved Persons out, including through the use of a business or trade name, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:

(a) the proficiency, experience, qualifications, or category of registration of the Approved Person, or Member;

(b) the nature of the client's or any other person's relationship, or potential relationship, with the Member or the Approved Person; or

(c) the products or services provided, or to be provided, by the Member or the Approved Person.

(2) For greater certainty, and without limiting Rule 1.2.5(1), an Approved Person who interacts with clients must not use any of the following:

(a) if based partly or entirely on that Approved Person's sales activity or revenue generation, a title, designation, award, or recognition;

(b) a corporate officer title, unless the Member has appointed that Approved Person to that corporate office pursuant to applicable corporate law; or

(c) if the Approved Person's Member has not approved the use by that Approved Person of a title or designation, that title or designation.

1.2.6 Continuing Education (CE)

(a) **Compliance with CE Requirements**. Each Member and each Approved Person shall comply with continuing education requirements applicable to them, as set out under this Rule and ~~Policy No.~~Rule 900.

(b) **Dealing Representative.** For each cycle, every Approved Person who is registered as a dealing representative under Canadian securities legislation must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 ~~MFDA~~ Compliance Credits, in accordance with requirements under ~~Policy No.~~Rule 900.

(c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an Approved Person is not registered as a dealing representative, but is registered as either a chief compliance officer or ultimate designated person under Canadian securities legislation, or is designated by the Member as a branch manager, alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ the Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 ~~MFDA~~ Compliance Credits, in accordance with requirements under ~~Policy No~~Rule~~.~~ 900.

(d) **CE Requirements for a Partial Cycle.**

(i) **Non-Application.** An Approved Person is not required to meet the CE requirement for any component credit specified under Rule 1.2.6(b) or (c), where, in any given cycle, the 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 an Approved Person is subject to requirements for any CE component credit specified under Rule 1.2.6(b) or (c) for less than a full cycle, and the period in question is greater than 2 months, the Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of ~~Policy No.~~Rule 900.

(e) **Leaves of Absence.** Where an Approved Person is subject to the requirements under Rule 1.2.6(b) or (c), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the CCO can reduce the CE credit requirements applicable to that Approved Person under Rule 1.2.6(b) or (c), in accordance with the applicable provisions under ~~Policy No.~~Rule 900.

(f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under ~~Policy No.~~ Rule 900.

(g) **Evidence of Completion.** Each Member and each Approved Person noted in subsections (b) and (c) above must maintain evidence of completion of CE credits for a cycle, as required under this Rule and ~~Policy No.~~Rule 900, for a 24-month period following the end of that cycle.

(h) **Reporting**. Each Member and each Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under ~~Policy No.~~Rule 900 respecting notification to the Corporation of the completion of CE credits.

(i) Non-compliance.

(i) Where, for any given cycle, an Approved Person does not meet the CE credit requirements of the ~~MFDA~~ continuing education program, that individual shall cease to act as an Approved Person of any Member, until such time as the Corporation has determined that the prescribed CE credit requirements have been met.

(ii) Each 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 Member or an Approved Person to comply with the requirements of this Rule or ~~Policy No.~~Rule 900.

1.3 Outside Activity

1.3.1 Definition

For the purpose of the ~~By-laws,~~ Rules ~~and Policies~~, "outside activity" means any activity conducted by an Approved Person outside of the Member:

(a) for which direct or indirect payment, compensation, consideration or other benefit is received or expected;

(b) involving any officer or director position and any other equivalent positions; or

(c) involving any position of influence.

1.3.2 Requirements for Outside Activity

An Approved Person may have, and continue in, an outside activity provided that:

(a) *Not prohibited*. The Corporation and the securities regulatory authority in the jurisdiction in which the Approved Person carries on, or proposes to carry on, the outside activity do not prohibit the Approved Person from engaging in such outside activity;

(b) *Notification*. The Approved Person discloses the outside activity to the Member;

(c) *Approval*. The Approved Person obtains written Member approval of the outside activity prior to engaging in such outside activity;

(d) *Conduct unbecoming*. The outside activity of the Approved Person must not be such as to bring the Corporation, its Members or the mutual fund industry into disrepute; and

(e) *Disclosure*. To the extent that the outside activity could be confused with Member business, clear written disclosure is provided to clients that any activities related to the outside activity are not the business of the Member and are not the responsibility of the Member.

1.4 Reporting Requirements

(a) **Member Reporting**. Every Member must report to the Corporation such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to:

(i) complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events;

(ii) investigations by the Member relating to any of the matters in sub-section (i); and

(iii) information relating to the business and operation of the Member and its Approved Persons.

(b) **Approved Person Reporting.** Every Approved Person must report to the Member such information, in a manner and within such period of time, as may be prescribed

by the Corporation from time to time relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events.

(c) **Failure to Report.** A Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or Approved Person to report any information required to be reported in the manner and within the period of time prescribed by the Corporation.

2 RULE 2 – BUSINESS CONDUCT

2.1 General

2.1.1 Standard of Conduct.

Each Member and each Approved Person of a Member shall:

(a) deal fairly, honestly and in good faith with its clients;

(b) observe high standards of ethics and conduct in the transaction of business;

(c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

(d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

2.1.2 Member Responsible

Each Member shall be responsible for the acts and omissions of each of its Approved Persons and other employees and agents relating to its business for all purposes under the By-laws and Rules.

2.1.3 Confidential Information

(a) All information received by a Member relating to a client or the business and affairs of a client shall be maintained in confidence by the Member and its Approved Persons and other employees and agents. No such information shall be disclosed to any other person or used for the advantage of the Member or its Approved Persons or other employees or agents without the prior written consent of the client or as required or authorized by legal process or statutory authority or where such information is reasonably necessary to provide a product or service that the client has requested.

(b) Each Member shall develop and maintain written policies and procedures relating to confidentiality and the protection of information held by it in respect of clients.

2.1.4 (1) Identifying, addressing and disclosing material conflicts of interest – Member

(a) A Member must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable,

(i) between the Member and the client, and

(ii) between each individual acting on the Member's behalf and the client.

(b) A Member must address all material conflicts of interests between a client and itself, including each individual acting on its behalf, in the best interests of the client.

(c) A Member must avoid any material conflict of interest between a client and the Member, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(d) A Member must disclose in writing all material conflicts of interest identified under Rule 2.1.4(1)(a) to a client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.

(e) Without limiting subsection (d), the information required to be delivered to a client under that subsection must include a description of each of the following:

(i) the nature and extent of the conflict of interest;

(ii) the potential impact on and risk that the conflict of interest could pose to the client;

(iii) how the conflict of interest has been, or will be, addressed.

(f) The disclosure required under subsection (d) must be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language.

(g) A Member must disclose a conflict of interest to a client under subsection (d)

(i) before opening an account for the client if the conflict has been identified at that time, or

(ii) in a timely manner, upon identification of a conflict that must be disclosed under subsection (d) that has not previously been disclosed to the client.

(h) For greater certainty, a Member or Approved Person does not satisfy Rule 2.1.4(1)(b) or requirements under Rule 2.1.4(2)(c) solely by providing disclosure to the client.

2.1.4 (2) Identifying, reporting and addressing material conflicts of interest – Approved Person

(a) An Approved Person must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the Approved Person and the client.

(b) If an Approved Person identifies a material conflict of interest under Rule 2.1.4(2)(a), the Approved Person must promptly report that conflict of interest to their Member.

(c) An Approved Person must address all material conflicts of interest between the client and the Approved Person in the best interest of the client.

(d) An Approved Person must avoid any material conflict of interest between a client and the Approved Person if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(e) An Approved Person must not engage in any trading or advising activity in connection with a material conflict of interest identified by the Approved Person under Rule 2.1.4(2)(a) unless

(i) the conflict has been addressed in the best interest of the client, and

(ii) the Approved Person's Member has given the Approved Person its consent to proceed with the activity.

2.1.5 Borrowing From Clients

No Approved Person shall borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client unless:

(a) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(b) the Approved Person has obtained the written approval of their Member to borrow the money, securities or other assets or accept the guarantee.

2.2 Client Accounts

Definitions.

For the purposes of the By-laws and Rules:

"financial exploitation" means the use or control of, or deprivation of the use or control of, a financial asset of an individual by a person through undue influence, unlawful conduct or another wrongful act;

"temporary hold" means a hold that is placed on the purchase or sale of a security on behalf of a client or on the withdrawal or transfer of cash or securities from a client's account;

"trusted contact person" means an individual identified by a client to a Member or Approved Person whom the Member or Approved Person may contact in accordance with the client's written authorization; and

"vulnerable client" means a client who might have an illness, impairment, disability or aging-process limitation that places the client at risk of financial exploitation.

2.2.1 "Know-Your-Client"

2.2.1(1) Each Member and Approved Person shall take reasonable steps to learn the essential facts relative to each client and to each order or account accepted, and to;

(a) establish the identity of a client and, if the Member or Approved Person has cause for concern, make reasonable inquiries as to the reputation of the client;

(b) ensure that they have sufficient information, in accordance with requirements under ~~Policy~~ Rule 200, and regarding all of the following, to enable the Member or Approved Person to meet their obligations under Rule 2.2.6

(i) the client's personal circumstances;

(ii) the client's financial circumstances;

(iii) the client's investment needs and objectives;

(iv) the client's investment knowledge;

(v) the client's risk profile; and

(vi) the client's investment time horizon.

(c) take reasonable steps to obtain from the client the name and contact information of a trusted contact person, and the client's written authorization for the Member or Approved Person to contact the trusted contact person to confirm or make inquiries about any of the following:

(i) the Member's or Approved Person's concerns about possible financial exploitation of the client;

(ii) the Member's or Approved Person's concerns about the client's mental capacity as it relates to the ability of the client to make decisions involving financial matters;

(iii) the name and contact information of a legal representative of the client, if any;

(iv) the client's contact information.

(d) Subsection (c) does not apply to a Member or Approved Person in respect of a client that is not an individual.

2.2.1(2) For the purpose of establishing the identity of a client that is a corporation, partnership, or trust, the Member or Approved Person must establish the following:

(a) the nature of the client's business;

(b) the identity of any individual who,

(i) in the case of a corporation, is a beneficial owner of, or exercises direct or indirect control or direction over more than 25% of the voting rights attached to the outstanding voting securities of the corporation, or

(ii) in the case of a partnership or trust, exercises control over the affairs of the partnership or trust.

2.2.2 New Accounts

(a) Each new account for a client must be opened by the Member within a reasonable time of the client's instruction to do so. Account numbers must not be assigned unless they are accompanied by the proper name and address for the client.

(b) A New Account Application Form must be completed for each new account of a client. If the New Account Application Form does not include know-your-client information, this must be documented on a separate Know-Your-Client form. Such form or forms shall be duly completed to conform with the requirements of Rule 2.2.1 and shall be signed by the client and dated.

2.2.3 New Account Approval

Each Member shall designate a trading partner, director or officer or, in the case of a branch office, a branch manager reporting directly to the designated partner, director or officer, who shall be responsible for approval of the opening of new accounts and the supervision of account activity. The designated person shall, no later than one business day after the initial transaction date, approve the opening of such account and a record of such approval shall be maintained in accordance with Rule 5.

2.2.4 Updating Client Information

(a) **Definition.** In this Rule, "**material change in client information**" means any information that results in changes to the stated risk profile, investment time horizon or investment needs and objectives of the client or would have a significant impact on the net worth or income of the client.

(b) A Member or Approved Person must take reasonable steps to keep the information required under Rule 2.2.1 current including updating the information within a reasonable time after becoming aware of a material change in client information.

(c) Subject to paragraph (d), the Member must maintain evidence of client instructions regarding any material changes in client information in accordance with ~~Policy~~ Rule 200, Part II (Opening New Accounts) – Changes to KYC Information, paragraph 6. All such changes must be approved by the individual designated in accordance with Rule 2.2.3 as responsible for the approval of the opening of new accounts.

(d) A client signature or other internal controls sufficient to authenticate the client's identity and verify the client's authorization must be used to evidence any change in client name, client address or client banking information.

(e) Without reducing the responsibility of Members in Rule 2.2.1, all Members must at least annually, in writing, request each client to notify the Member if there has been any material change in client information previously provided to the Member or the client's circumstances have materially changed. The date of such request and the date upon which any such client information is received and recorded or amended must be retained.

(f) A Member or Approved Person must review the information collected under Rule 2.2.1(1)(b):

(i) within 12 months when transacting in securities that require registration, under securities legislation, as an exempt market dealer;

(ii) in any other case, no less frequently than once every 36 months.

2.2.5 Know Your Product

(1) A Member must not make investments available to clients unless the Member has taken reasonable steps to:

(a) assess the relevant aspects of the investments, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs;

(b) approve the investments to be made available to clients; and

(c) monitor the investments for significant changes.

(2) An Approved Person must not purchase or sell investments for, or recommend investments to, a client unless the Approved Person takes steps to understand the investment, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs.

(2.1) For the purposes of subsection (2), the steps required to understand the investment are those that are reasonable to enable the Approved Person to meet their obligations under Rule 2.2.6.

(3) An Approved Person must not purchase investments for, or recommend investments to, a client unless the investments have been approved by the Member to be made available to clients.

2.2.6 Suitability Determination

(1) Before a Member or Approved Person opens an account for a client, makes a recommendation for an account of a client, including a recommendation to borrow to invest, purchases, sells, deposits, exchanges, or transfers investments for a client's account, or takes any other investment action for a client, the Member or Approved Person must determine, on a reasonable basis, that the action satisfies the following criteria:

(a) the action is suitable for the client, based on the following factors:

(i) the client's information collected in accordance with Rule 2.2.1 (Know-Your-Client);

(ii) the Member or Approved Person's assessment or understanding of the investment consistent with Rule 2.2.5 (Know-Your-Product);

(iii) the impact of the action on the client's account, including the concentration of investments within the account and the liquidity of those investments;

(iv) the potential and actual impact of costs on the client's return on investment;

(v) a reasonable range of alternative actions available to the Approved Person through the Member, at the time the determination is made;

(b) the action puts the client's interest first.

(2) A Member or Approved Person must review a client's account and the investments in the client's account to determine whether the criteria in subsection (1) are met, and take reasonable steps, within a reasonable time, after any of the following events:

(a) a review must be performed by the Approved Person, when there has been a change in the Approved Person responsible for the client's account at the Member;

(b) the Member or Approved Person becomes aware of a change in an investment in the client's account that could result in the investment or account not satisfying subsection (1);

(c) the Member or Approved Person becomes aware of a material change in the client's information collected in accordance with Rule 2.2.1 that could result in an investment or the client's account not satisfying subsection (1);

(d) the Member or Approved Person performs the periodic review required under Rule 2.2.4(f);

(e) whenever the client transfers assets into an account at the Member.

2.1. If, after performing a suitability determination, a Member or Approved Person has determined that an action taken for a client does not meet requirements under Rule 2.2.6(1),

the Member or Approved Person must advise the client accordingly, make recommendations to address any inconsistencies, and maintain evidence of such advice and recommendations.

2.2. Despite subsection (1), if a Member or Approved Person receives an instruction from a client to take an action that, if taken, does not satisfy subsection (1), the Member or Approved Person may carry out the client's instruction if the Member or Approved Person has

(a) informed the client of the basis for the determination that the action will not satisfy subsection (1);

(b) recommended to the client an alternative action that satisfies subsection (1); and

(c) received recorded confirmation of the client's instruction to proceed with the action despite the determination referred to in paragraph (a).

2.2.7 Relationship Disclosure

Definitions. For the purpose of requirements under Rule 2.2.7, "proprietary product" means a security of an issuer if one or more of the following apply:

(a) the issuer of the security is a connected issuer of the Member;

(b) the issuer of the security is a related issuer of the Member;

(c) the Member or an affiliate of the Member is the investment fund manager or portfolio manager of the issuer of the security.

2.2.7(1) For each new account opened, the Member shall provide written disclosure to the client:

(a) describing the nature of the advisory relationship;

(b) that provides a general description of the products and services the Member will offer to the client, including:

(i) a description of the restrictions on the client's ability to liquidate or resell a security; and

(ii) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the Member provides;

(c) that provides a general description of any limits on the products and services the Member will offer to the client, including whether the Member will primarily or exclusively offer proprietary products to the client, and whether there will be other limits on the availability of products or services;

(d) describing the Member's procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;

(e) stating that the Member must determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client's interests first;

(f) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;

(g) a description of the circumstances under which a Member or Approved Person might disclose information about the client or the client's account to a trusted contact person referred to in Rule 2.2.1(1)(c);

(h) describing the content and frequency of reporting for the account;

(i) that provides a general description of any benefits received, or expected to be received, by the Member or Approved Person from a person or company other than the client in connection with the client's purchase or ownership of an investment through the Member or Approved Person;

(j) disclosure of the operating charges the client might be required to pay related to the client's account;

(k) describing the type of transaction charges, as defined under Rule 5.3(1), that the client might be required to pay;

(l) generally describing the potential impact on a client's investment returns from investment fund management expense fees, other ongoing fees, operating charges, or transaction charges, including their compounding effect over time;

(m) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member, and

(n) a general explanation of the circumstances under which a Member or Approved Person may place a temporary hold under Rule 2.2.8 (Conditions for Temporary Hold) and a description of the notice that will be given to the client if a temporary hold is placed or continued under that Rule.

2.2.7(2) If there is a significant change in respect of the information delivered to the client under this Rule, the Member must take reasonable steps to notify the client of the change in a timely manner, and, if possible, before the Member next

(a) purchases or sells an investment for the client; or

(b) advises the client to purchase, sell, or hold an investment.

2.2.8 Conditions for Temporary Hold

(1) A Member or Approved Person must not place a temporary hold on the basis of financial exploitation of a vulnerable client unless the Member reasonably believes all of the following:

(a) the client is a vulnerable client;

(b) financial exploitation of the client has occurred, is occurring, has been attempted or will be attempted.

(2) A Member or Approved Person must not place a temporary hold on the basis of a client's lack of mental capacity unless the Member reasonably believes that the client does not have the mental capacity to make decisions involving financial matters.

(3) If a Member or Approved Person places a temporary hold referred to in subsection (1) or (2), the Member must do all of the following :

(a) document the facts and reasons that caused the Member or Approved Person to place and, if applicable, to continue the temporary hold;

(b) provide notice of the temporary hold and the reasons for the temporary hold to the client as soon as possible after placing the temporary hold;

(c) review the relevant facts as soon as possible after placing the temporary hold, and on a reasonably frequent basis, to determine if continuing the hold is appropriate;

(d) within 30 days of placing the temporary hold and, until the hold is revoked, within every subsequent 30-day period, do either of the following:

(i) revoke the temporary hold;

(ii) provide the client with notice of the Member's decision to continue the hold and the reasons for that decision.

2.3 Control or Authority

2.3.1 (a) Control or Authority

No Member or Approved Person shall have full or partial control or authority over the financial affairs of a client, including:

(i) accepting or acting upon a power of attorney from a client;

(ii) accepting an appointment to act as a trustee or executor of a client; or

(iii) acting as a trustee or executor in respect of the estate of a client.

(b) Discretionary Trading

No Member or Approved Person shall engage in any discretionary trading.

(c) Exception

Notwithstanding the provisions of paragraph (a), an Approved Person may have full or partial control or authority over the financial affairs of a client provided that:

(i) the client is a Related Person, as defined by the Income Tax Act (Canada), of the Approved Person;

(ii) the Approved Person notifies the Member of the appointment; and

(iii) the Approved Person obtains written Member approval prior to accepting or acting upon the control or authority.

2.3.2 Limited Trading Authorization

A Member or Approved Person may accept a limited trading authorization from a client for the express purpose of facilitating trade execution. In such circumstances a form of limited trading authorization as prescribed by the Corporation must be completed and approved by the compliance officer or branch manager, and retained in the client's file.

2.3.3 Designation

Each trade made pursuant to a limited trading authorization and its corresponding account must be identified as such in the books and records of the Member and on any order documentation.

2.4 Remuneration, Commissions and Fees

2.4.1 (a) Payable by Member Only

Any remuneration in respect of business conducted by an Approved Person on behalf of a Member must be paid by the Member (or its affiliates or its related Members which have received it from the Member) directly to and in the name of the Approved Person.

No Approved Person in respect of a Member shall accept or permit any associate to accept directly or indirectly, any remuneration, gratuity, benefit or any other consideration from any person other than the Member or its affiliates or its related Members, in respect of the business carried out by such Approved Person on behalf of the Member or its affiliates or its related Members.

(b) Payment of Commissions to Unregistered Corporation

For the purpose of this Rule, "unregistered corporation" shall be understood to mean a corporation that is, itself, not registered under securities legislation. Notwithstanding

paragraph (a), where an Approved Person acts as an agent of the Member in compliance with ~~MFDA~~ Rule 1.1.5, any remuneration, gratuity, benefit or other consideration in respect of business conducted by the Approved Person on behalf of a Member may be paid by the Member to an unregistered corporation provided that:

(i) such arrangements are not prohibited or otherwise limited by the relevant securities legislation or securities regulatory authorities;

(ii) the corporation is incorporated under the laws of Canada or a province or territory of Canada;

(iii) the Member, Approved Person and the unregistered corporation have entered into an Agreement in writing, in a form prescribed by the Corporation, in favour of the Corporation, the terms of which provide that:

(A) the Member and Approved Person shall comply with applicable ~~MFDA~~ By-laws and Rules and securities legislation and remain liable to third parties, including clients, irrespective of whether any remuneration, gratuity, benefit or any other consideration is paid to an unregistered corporation and no such payment shall, in and of itself, in any way limit or affect the duties, obligations or liability of the Member or Approved Person under ~~MFDA~~ Rules and applicable securities legislation;

(B) the Member shall engage in appropriate supervision with respect to the conduct of the Approved Person and the unregistered corporation to ensure such compliance as referred to in (A), above; and

(C) the Approved Person and the unregistered corporation shall provide the Member, the applicable securities commission and the ~~MFDA~~ Corporation with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with ~~MFDA~~ the Rules and applicable securities legislation.

(c) Arrangements Prohibited

Paragraph (b) does not apply in respect of any such remuneration, gratuity, benefit or other consideration derived from a client in Alberta.

2.4.2 Referral Arrangements

(a) **Definitions**. For the purpose of this Rule 2.4.2:

(i) "client" includes a prospective client;

(ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to provide or receive a referral fee to or from another person or company; and

(iii) "referral fee" means any benefit provided for the referral of a client to or from a Member or Approved Person.

(b) **Permitted Referral Arrangements**. A Member or Approved Person must not participate in a referral arrangement with another person or company unless:

(i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;

(ii) the Member records all referral fees; and

(iii) the Member ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

(c) **Verifying the Qualifications of the Person or Company Receiving the Referral.** A Member or Approved Person must not refer a client to another person or company unless the Member first takes reasonable steps to satisfy itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

(d) **Disclosing Referral Arrangements to Clients**

(i) The written disclosure of the referral arrangement required under Rule 2.4.2(b)(iii) must include the following:

(A) the name of each party to the agreement referred to under Rule 2.4.2(b)(i);

(B) the purpose and material terms of the agreement, including the nature of the services to be provided by each party;

(C) any conflicts of interest resulting from the relationship between the parties to the agreement and from any other element of the referral arrangement;

(D) the method of calculating the referral fee and, to the extent possible, the amount of the fee;

(E) the category of registration of each registrant that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving

consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;

(F) if a referral is made to a registrant, a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral; and

(G) any other information that a reasonable client would consider important in evaluating the referral arrangement.

(ii) If there is a change to the information set out under Rule 2.4.2(d)(i), the Member or Approved Person must ensure that written disclosure of that change is provided to each client affected by the change as soon as possible and no later than the 30th day before the date on which a referral fee is next paid or received.

2.4.3 Operating Charges

(a) No Member shall impose on any client or deduct from the account of any client any operating charge, as defined under Rule 5.3(1), unless written notice shall have been given to the client:

(i) on the opening of the account; and

(ii) not less than 60 days prior to the imposition or revision of the charge.

2.4.4 Transaction Fees or Charges

Prior to the acceptance of any order in respect of a transaction in a client account, the Member shall disclose to the client any transaction charges and:

(a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;

(b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply;

(c) whether the Member will receive trailing commissions in respect of the security;

(d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security; and

(e) provide a description of the restrictions on the client's ability to liquidate or resell a security.

2.5 Minimum Standards of Supervision

2.5.1 Member Responsibilities

Each Member is responsible for establishing, implementing and maintaining policies and procedures to ensure the handling of its business is in accordance with the By-laws and Rules ~~and Policies~~ and with applicable securities legislation.

2.5.2 Ultimate Designated Person

(a) **Designation.** Each Member must designate an individual registered under applicable securities legislation as an "ultimate designated person" who must be:

(i) the chief executive officer or sole proprietor of the Member;

(ii) an officer in charge of a division of the Member, if dealing in mutual funds occurs only within that division; or

(iii) an individual acting in a capacity similar to that of an officer described in (i) or (ii).

(b) **Responsibilities**. The ultimate designated person must:

(i) supervise the activities of the Member that are directed towards ensuring compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons; and

(ii) promote compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons.

2.5.3 Chief Compliance Officer

(a) **Designation**. Each Member must designate an individual registered under applicable securities legislation as a chief compliance officer" who must be:

(i) an officer or partner of the Member; or

(ii) the sole proprietor of the Member.

(b) **Responsibilities**. The chief compliance officer must:

(i) establish and maintain policies and procedures for assessing compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation;

(ii) monitor and assess compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation;

(iii) report to the ultimate designated person of the Member as soon as possible if the chief compliance officer becomes aware of any circumstances indicating that the Member, or any of its Approved Persons may be in non-compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation and any of the following apply:

(A) the non-compliance reasonably creates a risk of harm to a client;

(B) the non-compliance reasonably creates a risk of harm to the capital markets;

(C) the non-compliance is part of a pattern of non-compliance; and

(iv) submit a report to the board of directors or partners, as frequently as necessary and not less than annually, for the purpose of assessing compliance by the Member and its Approved Persons with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation.

(c) **Alternates**. In the event that a chief compliance officer is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternates who must be qualified as chief compliance officers pursuant to the applicable securities legislation and who shall carry out the responsibilities of the chief compliance officer.

2.5.4 Access to Board

The Member must permit its ultimate designated person and its chief compliance officer to directly access the board of directors or partners of the Member at such times as the ultimate designated person or the chief compliance officer may consider necessary or advisable in view of his or her responsibilities.

2.5.5 Branch Manager

(a) **Designation**. Each Member must designate an individual qualified as a branch manager pursuant to paragraph (d) for each branch office ~~(as defined in By-law 1.1)~~ of the Member. The Member is not required to designate a branch manager for a sub-branch office who is normally present at the office, provided that a branch manager who is not normally present at such sub-branch office supervises its business at the sub-branch office in accordance with the By-laws~~,~~ and Rules. ~~and Policies.~~

(b) Each individual designated as branch manager or alternate branch manager must submit to the jurisdiction of the ~~MFDA~~ Corporation.

(c) Notwithstanding paragraph (a), and subject to the approval of the Corporation, a Member may designate branch managers for branch offices who are not normally present at the offices provided the Member has a system to ensure effective supervision of activities at the branches.

(d) **Proficiency Requirements**. An individual may not be designated by the Member as a branch manager pursuant to paragraph (a) or an alternate branch manager pursuant to paragraph (g) unless the individual has:

(i) met the requirements for a salesperson as prescribed under applicable securities legislation and has passed any one of the following examinations:

(A) the Branch Managers Course Exam offered by the CSI Global Education Inc.;

(B) the Mutual Fund Branch Managers' Examination Course Exam offered by the IFSE Institute; or

(C) the Branch Compliance Officers Course Exam offered by the CSI Global Education Inc.

(e) **Experience Requirements**. In addition to the requirements set out in paragraph (d), each branch manager, except alternate branch managers, in respect of a Member shall:

(i) have acted as a salesperson, trading partner, director, officer or compliance officer registered under the applicable securities legislation for a minimum of two years; or

(ii) have a minimum of two years of equivalent experience to that of an individual described in paragraph (i).

(f) **Responsibilities**. The branch manager must:

(i) supervise the activities of the Member at a branch or sub-branch that are directed towards ensuring compliance with the By-laws, Rules ~~and Policies~~ and with applicable securities legislation by the Member and its Approved Persons; and

(ii) supervise the opening of new accounts and trading activity at the branch office.

(g) **Alternates**. In the event that a branch manager is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternate branch managers who must be qualified as branch managers pursuant to paragraph (d) and who shall carry out the responsibilities of the branch manager, but are not required to be normally present at the branch office.

2.5.6 Currency of Examination

For the purposes of the Rules, an individual is deemed to have not passed an examination or successfully completed a program unless the individual has done so within 36 months before the date the individual applied for registration or such longer period as may be

specified by and subject to relevant requirements as the Corporation may determine if it is satisfied based on the individual's experience that his or her knowledge and proficiency remains relevant and current.

2.5.7 Maintenance of Supervisory Review Documentation

The Member must maintain records of all compliance and supervisory activities undertaken by it and its partners, directors, officers, compliance officers and branch managers pursuant to the By-laws and Rules.

2.5.8 No Delegation

No Member or director, officer, partner, compliance officer, branch manager or alternate branch manager shall be permitted to delegate any supervision or compliance responsibility under the ~~By-laws or~~ Rules in respect of any business of the Member, except as expressly permitted pursuant to the ~~By-laws and~~ Rules.

2.6 Borrowing for Securities Purchases

Each Member shall provide to each client a risk disclosure document containing the information prescribed by ~~the~~ Corporation when

(a) a new account is opened for the client; and

(b) when an Approved Person makes a recommendation for purchasing securities by borrowing, or otherwise becomes aware of a client borrowing monies for the purpose of investment,

provided that a Member is not required to comply with paragraph (b) if such a risk disclosure document has been provided to the client by the Member within the six month period prior to such recommendation or becoming so aware.

2.7 Advertising and Sales Communications

2.7.1 Definitions

For the purposes of the ~~By-laws and~~ Rules:

(a) "advertisement" includes television or radio commercials or commentaries, billboards, internet websites, newspapers and magazine advertisements or commentaries and any published material promoting the business of a Member and any other sales literature disseminated through the communications media; and

(b) "sales communication" includes records, video tapes and similar material, market letters, research reports, and all other published material, except preliminary prospectuses and prospectuses, designed for or use in presentation to a client or a prospective client whether such material is given or shown to them and which includes a recommendation in respect of a security.

2.7.2 General Restrictions

No Member shall issue to the public, participate in or knowingly allow its name to be used in respect of any advertisement or sales communication in connection with its business which:

(a) contains any untrue statement or omission of a material fact or is otherwise false or misleading, including the use of a visual image such as a photograph, sketch, drawing, logo or graph which conveys a misleading impression;

(b) contains an unjustified promise of specific results;

(c) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions;

(d) contains any opinion or forecast of future events which is not clearly labelled as such;

(e) fails to fairly present the potential risks to the client;

(f) is detrimental to the interests of the public, the Corporation or its Members; or

(g) does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction over the Member.

2.7.3 Review Requirements

No advertisement or sales communication shall be issued unless first approved by a partner, director, officer, compliance officer or branch manager who has been designated by the Member as being responsible for advertisements and sales communications.

2.8 Client Communications

2.8.1 Definition

For the purposes of the ~~By-laws and~~ Rules "client communication" means any written communication by a Member or an Approved Person to a client of the Member, including trade confirmations and account statements, other than an advertisement or sales communication.

2.8.2 General Restrictions

No client communication shall:

(a) be untrue or misleading or use an image such as a photograph, sketch, logo or graph which conveys a misleading impression;

(b) make unwarranted or exaggerated claims or conclusions or fail to identify the material assumptions made in arriving at these conclusions;

(c) be detrimental to the interests of clients, the public, the Corporation or its Members;

(d) contravene any applicable legislation or any guideline, policy, rule or directive of any regulatory authority having jurisdiction over the Member; or

(e) be inconsistent or confusing with any information provided by the Member or Approved Person in any notice, statement, confirmation, report, disclosure or other information either required or permitted to be given to the client by a Member or Approved Person under the ~~By-laws,~~ Rules~~, Policies~~ or Forms.

2.8.3 Rates of Return

(a) In addition to complying with the requirements in Rule 2.8.2, any client communication, other than the investment performance report required under Rule 5.3.4, containing or referring to a rate of return regarding a specific account or group of accounts must:

(i) disclose an annualized rate of return calculated in accordance with standard industry practices; and

(ii) explain the methodology used to calculate such rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return.

(b) In addition to complying with the requirements in Rule 2.8.2 and Rule 2.8.3(a), any client communication containing or referring to a rate of return regarding a specific account or group of accounts that is provided by an Approved Person must be approved and supervised by the Member.

2.9 Internal Controls

Every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time.

2.10 Policies and Procedures Manual

Every Member shall establish and maintain written policies and procedures (that have been approved by senior management of the Member) for dealing with clients and ensuring compliance with the By-laws and Rules~~, By-laws and Policies~~ of the Corporation and applicable securities legislation.

2.11 Complaints

Every Member shall establish written policies and procedures for dealing with complaints which ensure that such complaints are dealt with promptly and fairly, and in accordance with the minimum standards prescribed by the Corporation from time to time.

2.12 Transfers of Account

2.12.1 Definitions

For the purposes of the ~~By-laws and~~ Rules:

(a) "account transfer" means the transfer in whole or in part of an account of a client of a Member at the request or with the authority of the client;

(b) "delivering Member" means in respect of an account transfer the Member from which the account of the client is to be transferred; and

(c) "receiving Member" means in respect of an account transfer the Member to which the account of the client is to be transferred.

2.12.2 Transfers

No account transfer shall be affected by a Member without the written authorization of the client holding the account. If an account transfer is authorized by a client, a delivering Member and a receiving Member shall act diligently and promptly in order to facilitate the transfer of the account in an orderly and timely manner.

2.13 Disclosure of [~~MFDA~~Corporation] Membership

2.13.1 Definition.

For the purposes of complying with the ~~MFDA~~ Corporation membership disclosure requirements under this Rule,

"~~MFDA~~ Corporation Logo" means the logo prescribed by the Corporation, from time to time, for use by Members.

2.13.2 Account Statement.

Members must include the ~~MFDA~~ Corporation Logo on the front of each account statement followed by the web address of the official website of the ~~MFDA~~ Corporation~~.~~

2.13.3 Member Website.

Members must include the ~~MFDA~~ Corporation Logo on the Member's homepage followed by a link to the official website of the ~~MFDA~~Corporation.

3 RULE 3 – FINANCIAL AND OPERATIONS REQUIREMENTS

3.1 Capital

3.1.1 Minimum Levels

(a) Each Member shall have and maintain at all times risk adjusted capital greater than zero, and minimum capital in the amounts referred to below for the Level in which the Member is designated, as calculated in accordance with Form 1 and with such requirements as the Corporation may from time to time prescribe:

Level 1 $25,000 for a Member which is an introducing dealer and which satisfies the requirements of Rule 1.1.6(a) and (b), is not a Level 2, 3 or 4 Member and is not otherwise registered in any other category of registration under securities legislation.

Level 2 $50,000 for a Member which does not hold client cash, securities or other property.

Level 3 $75,000 for a Member which does not hold client securities or other property, except client cash in a trust account.

Level 4 $200,000, for any other Member, including a Member which acts as a carrying dealer in accordance with Rule 1.1.6.

For the purposes of the By-laws, Rules~~, Policies~~ and Forms, a Member which is required to maintain minimum capital at an amount referred to above is referred to as a Level 1, 2, 3 or 4 Dealer or Member, as the case may be.

(b) Notwithstanding the provisions of paragraph (a), a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least $100,000.

3.1.2 Notice

If at any time the risk adjusted capital of a Member is, to the knowledge of the Member, less than zero, the Member shall immediately notify the Corporation.

3.2 Capital and Margin

3.2.1 Client Lending and Margin

No Member or Approved Person shall permit the purchase of securities by a client on margin. In addition, no Member or Approved Person shall lend money or extend credit to a client, or provide a guarantee in relation to a loan of money, securities or any other assets to a client, unless any of the following apply:

(a) in the case of a Member, the client is

(i) an Approved Person of the Member, or

(ii) a director, officer, or employee of the Member;

(b) in the case of an Approved Person:

(i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(ii) the Approved Person has obtained the written approval of their Member to lend the money, extend the credit, or provide the guarantee;

(c) the Member is advancing funds to a client in connection with the redemption of mutual fund securities where:

(i) the 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 Member of redemption proceeds;

(iv) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(v) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.2 Member Capital

(a) Each Member shall maintain capital in respect of its firm business in accordance with the requirements set out in Form 1.

(b) Each Member shall at all times maintain positive total financial statement capital as calculated in accordance with the requirements set out in Form 1.

3.2.3 Advancing Mutual Fund Redemption Proceeds

No Member shall advance funds or extend 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 unless:

(a) the Member has received prior confirmation of the redemption order from the issuer of the securities;

(b) 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;

(c) the client has authorized payment to and retention by the Member of redemption proceeds;

(d) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(e) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.4 Related Member Guarantees

(a) Each Member shall be responsible for and shall guarantee the obligations to clients incurred by each of its related Members ~~(as defined in By-law 1)~~, and each related Member shall be responsible for and shall guarantee the obligations of the Member to its clients on the following basis:

(i) where a Member holds an ownership interest in a related Member, the Member shall provide a guarantee in an amount equal to 100% of the Member's total financial statement capital (as determined in accordance with Form 1);

(ii) where a Member holds an ownership interest in a related Member, the related Member shall provide a guarantee of the Member in an amount equal to the percentage of the related Member's total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage of ownership interest the Member holds in the related Member; and

(iii) where two related Members are related because of a common ownership interest held by the same person(s), each related Member shall provide a guarantee of the other in an amount equal to the percentage of its total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage ownership interest held by the person(s) who holds the common ownership interest.

(b) A guarantee shall not be required at all or in the amount prescribed in accordance with Rule 3.2.4(a) where the Corporation in its discretion determines that a guarantee is not appropriate.

(c) A guarantee shall be required in such greater or lesser amount as prescribed in Rule 3.2.4(a) where the Corporation in its discretion determines that such greater or lesser guarantee amount is appropriate.

(d) A guarantee required pursuant to this Rule 3.2.4 shall be in the form prescribed from time to time by ~~the~~ Corporation.

3.2.5 Notice Regarding Accelerated Payment of Long Term Debt

Each Member shall immediately notify the Corporation of any request or demand by a creditor for accelerated payments or any other payments in addition to those specified under the agreed regular repayment schedule with respect to contingent and long term liabilities owed by the Member.

3.3 Segregation of Client Property

3.3.1 General

Each Member that holds cash, securities or other property of its clients shall hold such cash, securities or property separate and apart from its own property and in trust for its clients in accordance with this Rule 3.3.

3.3.2 Cash

(a) **Trust Account**. All cash held by a Member on behalf of clients shall be held separate and apart from the property of the Member in a designated trust account with a financial institution (which is an acceptable institution for the purposes of Form 1).

(b) **Determination.** Each Member shall determine on a daily basis the amount of cash it holds for clients and that is required to be held in segregation pursuant to this Rule 3.3.

(c) **Deficiency.** In the event of a deficiency in the amount of cash required to be held in trust for a client, the Member shall immediately provide from its own funds an amount necessary to correct the deficiency and any unsatisfied obligation to do so shall be immediately charged to the capital of the Member.

(d) **Notice to Institution**. The Member must advise the financial institution in writing 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 Member; and

(iii) the money held in trust may not be used to cover shortfalls in any other accounts of the Member.

(e) **Payment of Interest**. The Member must disclose to clients whether interest will be paid on client cash held in trust and the rate. Notwithstanding this requirement, the Member may retain the interest earned in excess of the amount of interest payable to the client. The Member may only revise the rate of interest upon the delivery of at least 60 days written notice to the client.

3.3.3 Securities

(a) **Internal Locations.** For the purposes of Rule 3.3.1, a Member may hold securities or other investment products within the physical possession or control of the Member segregated and held in trust for clients of the Member, provided that all internal storage locations are designated in the Member's ledger of accounts and the Member has adequate internal accounting controls and systems for safeguarding of securities held for clients.

(b) **External Locations**. For the purposes of Rule 3.3.1, securities or other investment products held beyond the physical possession of the Member must be segregated and held in trust for clients of a Member, or segregated and held by or for a Member, as the case may be, in acceptable securities locations, provided that the written terms upon which such securities or other investment products are deposited and held beyond the physical possession of the Member include provisions to the effect that:

(i) no use or disposition of the securities or products shall be made without the prior written consent of the Member;

(ii) certificates representing the securities or products can be delivered to the Member promptly on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities or products can be transferred either from the location or to another person at the location promptly on demand; and

(iii) the securities or products are held in segregation for the Member or its clients free and clear of any charge, lien, claim or encumbrance of any kind in favour of the depository or institution holding such securities or products.

(c) **Bulk Segregation.** A Member, which holds securities or property of clients in segregation in accordance with Rule 3.3.1 may hold securities or property in bulk segregation provided that the Member identifies in its records the amount and kind of each security or property held for each client. The Member shall determine, for all accounts of each client the market value and number of all securities to be held for the client.

(d) **General Restrictions.** In complying with its obligation to segregate client securities in accordance with Rule 3.3.1, each Member shall ensure that:

(i) a segregation deficiency is not knowingly created or increased; and

(ii) all securities of clients received by the Member are segregated.

(e) **Correction of Segregation Deficiencies**. In the event that a segregation deficiency exists, the Member shall expeditiously take the most appropriate action required to settle the segregation deficiency. If for any reason the deficiency has not been

settled within 30 days of being discovered, the Member shall immediately purchase the securities or property for the account of the client.

3.4 Early Warning

3.4.1 Definitions

The terms and definitions used in this Rule 3.4 shall have the same meanings as used in Form 1, unless otherwise defined in the ~~By-laws or~~ Rules or the context requires.

3.4.2 (a) Designation

A Member shall be designated in early warning according to its capital, profitability and liquidity position from time to time and frequency of designation or at the discretion of the Corporation as provided in this Rule 3.4 if at any time:

(i) *Capital*

Its risk adjusted capital is less than zero; or

(ii) *Liquidity*

Its early warning excess is less than zero; or

(iii) *Profitability*

Its risk adjusted capital at the time of calculation is less than the net loss (before bonuses, income taxes and extraordinary items) for the most recent quarter.

(iv) *Frequency*

It has been designated in early warning more than two times in the preceding twelve months.

(v) *Discretionary*

The condition of the Member, in the sole discretion of the Corporation, is not satisfactory for any reason including, without limitation, financial or operating difficulties, problems arising from record keeping conversion or significant changes in clearing methods, the fact that the Member is a new Member or the Member has been late in any filing or reporting required pursuant to the By-laws and Rules.

(b) Requirements

If a Member is designated in early warning then, notwithstanding the provisions of any By-law or Rule, the following provisions shall apply:

(i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Corporation a letter containing the following:

(A) advice of the fact that any of the circumstances in Rule 3.4.2 are applicable,

(B) an outline of the problems associated with the circumstances referred to in (A),

(C) an outline of the proposal of the Member to rectify the problems identified, and

(D) an acknowledgement that the Member is in early warning category and that the restrictions contained in Rule 3.4.2(b)(iv) apply,

a copy of which letter shall be provided to the Member's auditor;

(ii) the Corporation shall immediately designate the Member as being in early warning and shall deliver to the chief executive officer and chief financial officer a letter containing the following:

(A) advice that the Member is designated as being in early warning,

(B) a request that the Member file its next monthly financial report required pursuant to Rule 3.5.1(a) no later than 15 business days or, in the discretion of the Corporation if considered to be practicable, such earlier time following the end of the relevant month,

(C) a request that the Member respond to the letter as required under Rule 3.4.2(b)(iii) and confirmation that such response, together with the notice received pursuant to Rule 3.4.2(b)(i), will be forwarded to the ~~MFDA Investor Protection Corporation~~ IPF and may be forwarded to any securities commission having jurisdiction over the Member,

(D) advice that the restrictions referred to in Rule 3.4.2(b)(iv) shall apply to the Member,

(E) such other information as the Corporation shall consider relevant;

(iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in Rule 3.4.2(b)(ii), with a copy to be sent to the auditor of the Member, containing the information and acknowledgement required pursuant to Rule 3.4.2(b)(i)(B), (C) and (D), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed;

(iv) if and so long as the Member remains designated as being in early warning, it shall not without the prior written consent of the Corporation:

(A) reduce its capital in any manner including by redemption, re-purchase or cancellation of any of its shares,

(B) reduce or repay any indebtedness which has been subordinated with the approval of the Corporation,

(C) directly or indirectly make any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company, affiliate or associate,

(D) increase its non-allowable assets (as specified by the Corporation) unless a prior binding commitment to do so exists or enter into any new commitments which would have the effect of materially increasing the non-allowable assets of the Member,

(v) if and so long as the Member remains designated as being in early warning, it shall continue to file its monthly financial reports within the time specified pursuant to Rule 3.4.2(b)(ii)(B),

(vi) after the Member is designated as being in an early warning category, the Corporation may conduct an on-site review of the Member's procedures for monitoring capital on a daily basis and prepare a report as to the results of the review, or

(vii) the Corporation may request and the Member shall provide in such time as the Corporation considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Corporation to assess and monitor the financial condition or operations of the Member.

(c) Prohibited Transactions

No Member shall enter into any transaction or take any action, as described in Rule 3.4.2(b)(iv), which, when completed, would have or would reasonably be expected to have the effect on the Member as described in Rule 3.4.2(a), without first notifying the Corporation in writing of its intention to do so and receiving the written approval of the Corporation prior to implementing such transaction or action.

3.4.3 Restrictions

The Corporation may in its discretion, without affording the Member a hearing, prohibit a Member which is designated as being in early warning from opening any new branch offices, hiring any new Approved Persons, opening any new client accounts or changing in any material respect the investment positions of the Member. Any such prohibitions which have been imposed shall continue to apply until the Member is no longer designated as being in early warning, as demonstrated by the latest filed monthly financial report of the Member.

3.4.4 Duration

A Member shall remain designated as being in early warning and subject to the provisions in this Rule 3.4 as are applicable, until the latest filed monthly financial reports of the Member, or such other evidence or assurances as may be appropriate in the circumstances demonstrate, in the opinion of the Corporation that the Member no longer is required to be designated as being in early warning and the Member has otherwise complied with this Rule 3.4.

3.5 Filing Requirements

3.5.1 Monthly and Annual

Each Member shall:

(a) file monthly with the Corporation within 20 business days of the month's end a copy of a financial report of the Member as at the end of each fiscal month or at such other date as may be agreed with the Corporation. Such monthly financial reports shall contain or be accompanied by such information as may be prescribed by the Corporation from time to time; and

(b) file annually with the Corporation two copies of the audited financial statements of the Member as at the end of the Member's fiscal year or as at such other fixed date as may be agreed with the Corporation. Such statements shall be in such form, shall contain such information and shall be supplemented by such additional schedules as the Corporation may from time to time prescribe, and shall be filed through the Member's auditor within 90 days of the date as of which such statements are required to be prepared;

3.5.2 Combined Financial Statements

In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Corporation, be combined (in a manner as set out below) with that of any related Member provided that:

(a) the Member has guaranteed the obligations of such related Member and the related Member has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Corporation and unlimited in amount).

(b) inter-company accounts between the Member and the related Member shall be eliminated;

(c) any minority interests in the related Member shall be eliminated from the capital calculation; and

(d) calculations with respect to the Member and the related Member shall be as of the same date.

3.5.3 Members' Auditors

(a) **Examination**. Every Member's auditor shall examine the accounts of the Member as at the date referred to in Rule 3.5.1 and shall make a report thereon in such form as the Corporation may from time to time prescribe. Each Member's auditor shall also make such additional examinations and reports as the Corporation may from time to time request or direct.

(b) **Standards**. The Member's auditor shall conduct his or her examination of the accounts of the Member in accordance with Canadian generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed. Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Rule 3.6.

(c) **Access to Books and Records**. Every Member's auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined or its affiliates or its related Members, and no Member, affiliate or related company, as the case may be, shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's auditor for the purpose of such examination.

3.5.4 Assessments

(a) **Excessive Attention**. If at any time the Corporation is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Corporation and that it would be in the interests of the Corporation that the Corporation be reimbursed by such Member, the Corporation shall have the power to impose an assessment against such Member.

(b) **Late Filing**. Each Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this Rule 3 within the times prescribed by this Rule 3, the Corporation or the terms of such report, form, financial statement or other information, as the case may be.

3.6 Audit Requirements

3.6.1 Standards

The audit under Rule 3.5 shall be conducted in accordance with Canadian generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It shall include all audit procedures necessary under the circumstances to support the opinions which must be

expressed in the Member's auditor's reports of Parts I and II of Form 1. Because of the nature of the industry, the substantive audit procedures relating to the financial position must be carried out as of the audit date and not as of an earlier date, notwithstanding that the audit is otherwise conducted in accordance with Canadian generally accepted auditing standards.

3.6.2 Scope

(a) *Tests*. The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedure which any Member's auditor would deem necessary under the circumstances. For purposes of this Rule tests fall into two basic categories (as described in CICA Handbook):

(i) specific item tests, whereby the auditor examines individual items which he or she considers should be examined because of their size, nature or method of recording; and

(ii) representative item tests, whereby the auditor's objective is to examine an unbiased selection of items.

The determination of an appropriate sample on a representative basis may be made using either statistical or non-statistical methods in accordance with Canadian generally accepted auditing standards.

In determining the extent of the tests appropriate in sub-sections (i), (ii) and (iii) of (b) below, the Member's auditor should consider the adequacy of the system of internal control and the level of materiality appropriate in the circumstances so that in the auditor's professional judgement the risk of not detecting a material misstatement, whether individually or in aggregate is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning excess).

(b) *Audit Procedures*. The Member's auditor shall as of the audit date:

(i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and substantiate the subsidiary ledger totals with their respective control accounts (see Rule 3.6.4 below relating to Electronic Data Processing);

(ii) account for, by physical examination and comparison with the books and records, all securities in the physical possession of the Member;

(iii) review the reconciliation of all mutual fund companies and financial institutions where a Member operates a nominee name account and review the balancing of all positions. Where a position or account is not in balance according to the records, ascertain that an adequate provision has been made in accordance with the Notes and Instructions for out of balance positions embodied in Statement B of Form 1 for any potential loss;

(iv) review bank reconciliations and by appropriate audit procedures substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;

(v) where a Member operates a nominee name account or has its own securities or investment products, ensure that all custodial agreements are in place for those lodged with acceptable locations and that such agreements satisfy the minimum requirements of the Corporation;

(vi) obtain written confirmation with respect to the following:

(A) bank balances and other deposits;

(B) cash, nominee name positions and deposits with clearing houses and like organizations and cash and nominee name positions with mutual fund companies and financial institutions;

(C) cash and investments loaned or borrowed (including subordinated loans) together with details of collateral received or pledged, if any;

(D) accounts with brokers or dealers;

(E) accounts of directors, partners or officers of the Member held by the Member where the Member operates a nominee name account;

(F) accounts of clients where a Member operates a nominee name account;

(G) statements from the Member's lawyers as to the status of lawsuits and other legal matters pending which, if possible, should include an estimate of the extent of the liabilities so disclosed; and

(H) all other accounts which in the opinion of the Member's Auditor should be confirmed.

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been sent by, and returned directly to, the Member's auditor and second requests are similarly sent to those not replying to the initial request. Appropriate alternative verification procedures must be used where replies to second requests have not been received. For accounts mentioned in (D) and (F) above, the Member's auditor shall (1) select specific accounts for positive confirmation based on their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and other characteristics such as accounts in dispute, and (2) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (D) and (F) above that are not confirmed positively, the Member's auditor shall send statements with a request that

any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;

(vii) subject the Statements in Part I and Schedules in Part II of Form 1 to audit tests and/or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (deficiency) of risk adjusted capital are calculated in accordance with the Rules and Form 1 in all material respects in relation to the financial statements taken as a whole;

(viii) obtain a letter of representation from the senior officers of the Member with respect to the fairness of the financial statements including among other things the existence of contingent assets, liabilities and commitments.

(ix) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Cash and Securities in Form 1.

3.6.3 Additional Reporting

In addition, the Member's auditor shall:

(a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in Form 1; and

(b) report on any subsequent events, to date of filing, which have had a material adverse effect on the excess (deficiency) of risk adjusted capital.

3.6.4 Systems Review

The Member's auditors' review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above Audit Requirements should encompass any in-house or service bureau EDP operations. As a result of such review and evaluation the Member's auditor may be able to reduce the extent of detailed checking of clients and other account statements to trial balances and security position records.

3.6.5 Retention

Copies of Form 1 and all audit working papers shall be retained by the Member's auditor for seven years. The two most recent years shall be kept in a readily accessible location. All working papers shall be made available for review by the Corporation and the ~~MFDA Investor Protection Corporation~~ IPF and the Member shall direct its auditor to provide such access on request.

3.6.6 Report to Corporation

If the Member's auditor observes during the regular conduct of his or her audit any material breach of the By-laws or Rules pertaining to the calculation of the Member's financial position, handling and custody of securities and maintenance of adequate records he or she shall make a report to the Corporation.

3.6.7 Reliance

The reports and audit opinions required in respect of a Member under this Rule 3.6 shall be addressed to the Corporation and the ~~MFDA Investor Protection Corporation~~ IPF in conjunction with the Member who shall be entitled to rely on them for all purposes.

3.6.8 Qualification

The reports and audit opinions referred to in this Rule 3.6 shall be signed by an engagement partner on behalf of the Member's auditor who shall (i) be authorized to do so in accordance with applicable legislation in the jurisdiction in which the principal office of the Member is located, (ii) be acceptable to the Corporation in accordance with Rule ~~By-law 11~~8.2.1 and (iii) have acknowledged in writing to the Corporation and the Member that it is familiar with the then current By-laws, Rules, ~~Policies~~ and Forms as they relate to the matters required to be reported on therein.

4 RULE 4 - INSURANCE

4.1 Financial Institution Bond

Every Member shall, by means of a Financial Institution Bond or Bonds (with Discovery Rider attached or Discovery Provisions incorporated in the Bond) and/or mail insurance, effect and keep in force insurance against losses arising as follows:

Clause (A) - Fidelity - Any loss through any dishonest or fraudulent act of any of its employees or agents, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of the employees;

Clause (B) - On Premises - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit, as more fully defined in the Standard Form of Financial Institution Bond (herein referred to as the "Standard Form");

Clause (C) - In Transit and Mail - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit or in the mail;

Clause (D) - Forgery or Alterations - Any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in cash, excluding securities, as more fully defined in the Standard Form;

Clause (E) - Securities - Any loss through having purchased or acquired, sold or delivered, or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments or other documents or written instruments, as more fully defined in the Standard Form.

A Member is not required to effect and keep in force mail insurance where the Member does not use mail for outgoing shipments of cash, securities or other property, negotiable or non-negotiable.

4.2 Notice of Termination

Each Financial Institution Bond maintained by a Member shall contain a rider containing provisions to the following effect:

(i) The underwriter shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:

(A) the expiration of the Bond period specified;

(B) cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;

(C) the taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials; or

(D) taking over of the insured by another institution or entity.

(ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

4.3 Termination or Cancellation

In the event of the take-over of a Member by another institution or entity as described in Rule 4.2(D) the Member shall ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by the Member prior to the effective date of such take-over and the Member shall pay, or cause to be paid, any applicable additional premium.

4.4 Amounts Required

4.4.1 Minimum

The minimum amount of insurance to be maintained for each Clause under Rule 4.1 shall be the greater of:

(a) in the case of a Member designated as a Level 1, 2 or 3 Dealer, $50,000 for each Approved Person up to a maximum of $200,000; and for a Level 4 Dealer, $500,000; and

(b) 1% of the base amount (as defined herein);

provided that for each Clause such minimum amount need not exceed $25,000,000.

4.4.2 Base Amount

For the purposes of this Rule 4.4, the term "base amount" shall mean the greater of:

(a) the net value of cash and securities held by the Member on behalf of clients; and

(b) the total allowable assets of the Member determined in accordance with Statement A of Form 1.

4.5 Provisos

Rules 4.1, 4.2 and 4.4 shall be subject to the following:

(a) the amount of insurance required to be maintained by a Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement;

(b) should there be insufficient coverage, a Member shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaires and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the Corporation;

(c) a Financial Institution Bond maintained pursuant to Rule 4.1 may contain a clause or rider stating that all claims made under the bond are subject to a deductible.

4.6 Qualified Carriers

Insurance required to be effected and kept in force by a Member pursuant to this Rule 4 may be underwritten directly by either (i) an insurer registered or licensed under the laws of Canada or any province of Canada or (ii) any foreign insurer approved by the Corporation. No foreign insurer shall be approved by the Corporation unless the insurer has the minimum net worth required of $75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection and the Corporation is satisfied that the insurer is subject to supervision by regulatory authorities in the jurisdiction of incorporation of the insurer which is substantially similar to the supervision of insurance companies in Canada.

4.7 Global Financial Institution Bonds

Where the insurance maintained by a Member in respect of any of the requirements under this Rule 4 names as the insured or benefits the Member, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:

(a) the Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Member; and

(b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of

(i) the Member, or

(ii) any of the Member's subsidiaries whose financial results are consolidated with those of the Member, or

(iii) a holding company of the Member provided that the holding company does not carry on any business or own any investments other than its interest in the Member,

without regard to the claims, experience or any other factor referable to any other person.

5 RULE 5 - BOOKS, RECORDS AND REPORTING

5.1 Requirement for Records

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

(a) blotters, or other records, containing an itemized daily record of:

(i) all purchases and sales of securities;

(ii) all receipts and deliveries of securities, including certificate numbers;

(iii) all receipts and disbursements of cash;

(iv) all other debits and credits, the account for which each transaction was effected;

(v) the name of the securities;

(vi) the class or designation of the securities;

(vii) the number or value of the securities;

(viii) the unit and aggregate purchase or sale price; and

(ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;

(b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:

(i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;

(ii) the account for which entered or received;

(iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and

(iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4

(c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;

(d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

(e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;

(f) all cheque books, bank statements, cancelled cheques and cash reconciliations;

(g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;

(h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;

(i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and

(j) all documentation relating to an advance 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 Rule 3.2.3;

(k) records which demonstrate compliance with Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), and 2.2.6 (suitability determination) requirements;

(l) records which demonstrate compliance with Rule 2.1.4 (Conflicts of Interest);

(m) records which demonstrate compliance with Rule 1.2.5 (Misleading Communications);

(n) records which demonstrate compliance with complaint handling requirements, prescribed under Rule 2.11, and ~~Policy No. 3~~Rule 300;

(o) records which document correspondence with clients;

(p) records which document compliance and supervision actions taken by the firm;

(q) records which document training prescribed under Rule 1.2.4, ~~Policy~~ Rule 100, and ~~Policy~~ Rule 900;

(r) records which document:

(i) the Member's sales practices, compensation arrangements, and incentive practices;

(ii) other compensation arrangements and incentive practices from which the Member or its Approved Persons or any affiliate or associate of the Member benefit; and

(iii) records which demonstrate compliance with Rule 2.2.8 (Conditions for Temporary Hold).

5.2 Storage Medium

All records and documents required to be maintained by a Member in writing or otherwise may be kept by means of mechanical, electrical, electronic or other devices provided:

(a) such method of record keeping is not prohibited under any applicable legislation;

(b) there are appropriate internal controls in place, to guard against the risk of falsification of the information recorded;

(c) such method provides a means to furnish promptly to the Corporation upon request legible, true and complete copies of those records of the Member which are required to be preserved; and

(d) the Member has suitable back-up and disaster recovery programs.

5.3 Client Reporting

(1) Definitions

For the purpose of client reporting requirements under Rule 5.3:

(a) "book cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations;

(b) "connected issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(c) "cost" for each investment position in the account means, subject to paragraphs (i), (ii) and (iii), either "book cost" or "original cost", provided that only one cost calculation methodology, either "book cost' or "original cost," is used for all positions;

(i) **Investment Positions Opened before December 31, 2015**. For investment positions opened before December 31, 2015, means cost, as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at December 31, 2015 or an earlier date, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date;

(ii) **Investment Positions Transferred In**: For investment positions transferred into an account at the Member, means cost as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at the date of the position's transfer if it is also disclosed in the account statement that it is the market value, not the cost of the investment position, that is being disclosed; and

(iii) **Where Cost Not Determinable:** Where a Member reasonably believes that it cannot determine cost in respect of an investment position, the Member must provide disclosure of that fact in the statement.

(d) "investment" means any asset, excluding cash, held or transacted in an account of the Member;

(e) "marketplace" has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*;

(f) "market value" of a security has the meaning given to it under ~~MFDA~~ Form 1 ~~*Financial Questionnaire and Report*~~;

(g) "operating charge" means any amount charged to a client by a Member in respect of the operation, transfer or termination of a client's account and includes any federal, provincial or territorial sales taxes paid on that amount;

(h) "original cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase;

(i) "related issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(j) "total percentage return" means 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;

(k) "trailing commission" means any payment related to a client's ownership of a security that is part of a continuing series of payments to a Member or Approved Person by any party;

(l) "transaction charge" means any amount charged to a client by a Member and includes any federal, provincial or territorial sales taxes paid on that amount.

5.3.1 Delivery of Account Statement

Each Member shall, in a timely manner, send an account statement to each client at least once every three months.

5.3.2 Content of Account Statement

Each account statement must contain the following information:

(a) **General Information.**

(i) the type of account;

(ii) the account number;

(iii) the period covered by the statement;

(iv) the name of the Approved Person(s) servicing the account, if applicable;

(v) the name, address and telephone number of the Member; and

(vi) as applicable, the definition of "book cost" or "original cost", as set out under Rules 5.3(1)(a) and (h).

(b) **Account Activity.**

for each transaction made for or in respect of the client, in an account at the Member, during the period covered by the statement:

(i) the date of the transaction;

(ii) the type of transaction;

(iii) the total value of the transaction;

for each transaction that is a purchase, sale or transfer made for the client, in an account at the Member, during the period covered by the statement:

(iv) the name of the investments;

(v) the number of investments; and

(vi) the price per investment.

(c) **Market Value and Cost Reporting.**

for all investments in an account at the Member:

(i) as at the beginning of the period for which the statement is made:

(A) the total market value of all cash and investments in the account; and

(ii) as at the end of the period for which the statement is made:

(A) the name and quantity of each investment in the account;

(B) the market value of each investment in the account and, if applicable, a notification to the client that there is no active market for the investment and that its value has been estimated. Where a value cannot be reliably determined, the Member must include the following notification or a notification that is substantially similar: "*Market value not determinable*."

(C) the cost of each investment position presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period. Where market value is used to determine the cost of an investment position, disclosure of that fact must be provided in the account statement;

(D) the total cost of all investment positions;

(E) the total market value of each investment position in the account;

(F) any cash balance in the account;

(G) the total market value of all cash and investments in the account; and

(H) disclosure in respect of the party that holds or controls each investment and a description of the way it is held.

(d) **Deferred Sales Charges.** Each account statement must disclose which securities may be subject to deferred sales charges if they are sold.

(e) ~~**MFDA IPC** **IPF** **Coverage.** Each account statement must include disclosure, as established by the ~~MFDA IPC~~ IPF, respecting ~~MFDA IPC~~ IPF coverage.

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5.3.3 Report on Charges and Other Compensation

(1) **Content of Report on Charges and Other Compensation.** For each 12 month period, a Member must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

(a) the Member's current operating charges which might be applicable to the client's account;

(b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;

(d) the total amount of the operating charges reported under subsection (b) and the transaction charges reported under subsection (c);

(e) if the Member purchased or sold debt securities for the client during the period covered by the report, either of the following:

(i) the total amount of any mark-ups, mark-downs, commissions or other service charges the Member applied on the purchases or sales of debt securities;

(ii) the total amount of any commissions charged to the client by the Member on the purchases or sales of debt securities and, if the Member applied mark-ups, mark-downs or any service 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 you received (in the case of a sale). This amount was in addition to any commissions you were charged."

(f) the total amount of each type of payment, other than a trailing commission, that is made to the Member or any of its Approved Persons by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(g) if the 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 12-month 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."

(2) The information required to be reported under subsection 5.3.3(1) must be delivered in a separate report on charges and other compensation for each account of the client;

(3) A Member may provide a report on charges and other compensation that consolidates into a single report the required information for more than one of a client's accounts if the following apply:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(4) **Consolidated Reporting for Same Accounts**. Where a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3) and a consolidated

performance report is sent to the client pursuant to ~~Policy~~ Rule 700 (Performance Reporting), General Requirements, subsection (2), both consolidated reports must consolidate information for the same accounts.

(5) **Disclosure of Compensation Not Reported.** Where a Member receives compensation or other payments in respect of an investment that is not a security, during the period covered by the report, the Member must either:

(i) disclose the information required under Rule 5.3.3(1) in respect of the investment; or

(ii) indicate that compensation or payments received related to the investment have not been included in the report on charges and compensation being provided to the client.

5.3.4 Performance Report

A Member must deliver a performance report, in respect of all investments required to be reported under Rule 5.3.2, to a client every 12 months, except that the first report delivered after a Member first makes a trade or transfer for a client may be sent within 24 months after that trade or transfer. The performance report must include:

(i) the annual change in the market value of the client's account for the 12-month period covered by the report;

(ii) the cumulative change in the market value of the account, since the account was opened;

(iii) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry, provided for 1, 3, 5 and 10 year periods and since account inception; and

must otherwise meet the requirements set out under ~~Policy~~ Rule 700 (Performance Reporting).

5.3.5 Delivery of Report on Charges and Other Compensation and Performance Report

(1) A report under Rule 5.3.3 – Report on Charges and Other Compensation and a report under Rule 5.3.4 – Performance Report must include information for the same 12 month period and the reports must be delivered together in one of the following ways:

(a) combined with the account statement required to be delivered under Rule 5.3.1;

(b) accompanying the account statement required to be delivered under Rule 5.3.1; or

(c) within 10 days after the delivery of the account statement required to be delivered under Rule 5.3.1.

(2) Subsection (1) does not apply in respect of the first report under Rule 5.3.3 – Report on Charges and other Compensation and the first report under Rule 5.3.4 – Performance Report for a client.

5.3.6 Exempt Market Dealers and Scholarship Plan Dealers – Client Reporting

Where a Member is also registered as:

(a) an exempt market dealer, and a client has purchased a security from the Member that is sold pursuant to an exemption under securities legislation; or

(b) as a scholarship plan dealer, and a client has invested in a scholarship plan through the Member,

the Member must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities legislation.

5.4 Trade Confirmations

5.4.1 Delivery of Confirmations

Every Member who has acted as principal or agent in connection with any trade in a security shall promptly send by prepaid mail or deliver to the client a written confirmation of the transaction containing the information required under Rule 5.4.3.

The Member need not send to its client a written confirmation of a trade 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 Rule 5.4.3.

5.4.2 Automatic Plans

Where a transaction relates to a client's participation in an automatic plan that provides for systematic trading in the securities of a mutual fund on a monthly or more frequent basis, and the Member registers the mutual funds pursuant to the plan, the Member is required to send a trade confirmation for the initial transaction only.

5.4.3 Content

Every confirmation of trade sent to a client must set forth the following information:

(a) the quantity and description of the security purchased or sold;

(b) the price per security paid or received by the client;

(c) in the case of a purchase of a debt security, the security's annual yield;

(d) in the case of a purchase or sale of a debt security, either of the following:

(i) the total amount of any mark-up or mark-down, commission or other service charges the Member applied to the transaction;

(ii) the total amount of any commission charged to the client by the Member and, if the 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 security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you."

(e) 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;

(f) the name of the Member;

(g) whether or not the Member is acting as principal or agent;

(h) if acting as agent, the name of the person or company from or to or through whom the security was bought or sold;

(i) the date and name of the marketplace, if any, on which the transaction took place, or if applicable, a statement that the transaction took place on more than one marketplace or over more than one day;

(j) the type of the account through which the trade was effected;

(k) the name of the Approved Person, if any, involved in the transaction;

(l) the date of the trade;

(m) the settlement date of the transaction; and

(n) if applicable, that the security was issued by a related or connected issuer of the Member. This information is not required to be provided where the names of the Member and the mutual fund are sufficiently similar to indicate that they are affiliated or related.

5.5 Access to Books and Records

All books, records, documentation and other information required to be kept and maintained by a Member or Approved Person shall be available for review by the Corporation and the Corporation shall be entitled to make copies thereof and retain them for the purposes of carrying out its objects and responsibilities under the applicable securities legislation, the By-laws or the Rules.

5.6 Record Retention

Each Member shall retain copies of the records and documentation referred to in this Rule 5 for seven years from the date the record is created or such other time as may be prescribed by the Corporation.

6 RULE 6 - EXAMINATIONS AND INVESTIGATIONS

6.1 Power to Conduct Examinations and Investigations

The Corporation shall make such examinations of and investigations into the conduct, business or affairs of any Member, Approved Person of a Member or any other person under the jurisdiction of the Corporation pursuant to the By-laws and/or the Rules as it considers necessary or desirable in connection with any matter relating to compliance by such person with:

6.1.1 the By-laws and Rules ~~or Policies~~ of the Corporation;

6.1.2 any securities legislation applicable to such person including any rulings, policies, regulations or directives of any securities commission; or

6.1.3 the by-laws, rules, regulations and policies of any self-regulatory organization.

6.2 Examinations and Investigatory Powers

6.2.1 For the purpose of any examination or investigation pursuant to this ~~By-law~~ Rule, a Member, Approved Person of a Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules may be required by the Corporation to:

(a) submit a report with respect to any matter involved in any such examination or investigation;

(b) produce for inspection any records in the possession or control of the Member, an Approved Person of the Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules that the Corporation believes may be relevant to the examination or investigation;

(c) provide copies of any such records in the manner and form, including electronically, that the Corporation requests;

(d) answer questions with respect to any such matters;

(e) in an investigation, attend and answer questions under oath or otherwise, and any such attendance may be transcribed, recorded electronically, audio-recorded or video-recorded as the Corporation determines;

(f) make any of the above information available through any directors, officers, employees, agents and other persons under the direction or control of the Member, Approved Person or other person under the jurisdiction of the Corporation;

and the Member or person shall be obliged to cooperate in the examination or investigation.

6.2.2 For the purposes of Rule ~~Section 22~~6.2, the Corporation may require production of original records and must provide a receipt for any original records received.

6.2.3 In connection with an examination or investigation, the Corporation:

(a) may, with or without prior notice, enter the business premises of any Member or Approved Person during business hours;

(b) is entitled to free access to all records and electronic systems and other media in which records are stored, and to make and keep copies of all the records that the Corporation believes may be relevant to the examination or investigation, including by taking an image of the computer hard drives of the Member or Approved Person; and

(c) may remove the original of any record obtained under ~~Section 22~~ Rule 6.2.3(b), and where an original record is removed from the premises, the Corporation must provide a receipt for the removed record.

6.2.4 The Member or Approved Person who is aware that the Corporation is conducting an examination or investigation must not conceal or destroy any record that contains information that may be relevant to the examination or investigation.

6.2.5 The Corporation, may, with respect to any information received:

(a) refer a matter to the applicable ~~Regional Council~~ hearing committee for consideration in accordance with the provisions of ~~Section~~ Rule 7.4~~24~~; or

(b) refer a matter to the appropriate securities regulatory authority, self-regulatory organization or law enforcement agency; or

(c) take such other action under the By-laws or Rules which it considers appropriate in the circumstances.

6.3 Co-operation with Other Authorities

6.3.1 Request for Information

Any Member, Approved Person or any person under the jurisdiction of the Corporation, that is requested by any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country to provide information in connection with an investigation of trading in securities shall submit the requested information, books, records, reports, filings and papers to the commission, authority, organization, exchange or market making the request in such manner and form, including electronically, as may reasonably be prescribed by such commission, authority, organization, exchange or market.

6.3.2 Agreements

The Corporation may enter into in its own name agreements or arrangements with any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country for the exchange of any information (including information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession) and for other forms of mutual assistance for market surveillance, investigation, enforcement and other regulatory purposes.

6.3.3 Assistance

The Corporation may provide to any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country any information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession and may provide other forms of assistance for surveillance, investigation, enforcement and other regulatory purposes.

7 RULE 7 - DISCIPLINE

7.1 Hearing Committees

7.1.1 Establishment

A hearing committee must be appointed for each District.

7.1.2 Resident in District

A member of a hearing committee of a District must reside in the District.

7.1.3 Composition of Hearing Committees

7.1.3.1 Industry

Two thirds of the members of a hearing committee, to the extent practicable, must be industry members.

7.1.3.2 Public

One third of the members of a hearing committee, to the extent practicable, must be public members.

7.1.4 Chair

The chair of a hearing committee must be a public member.

7.1.5 Nomination of Hearing Committee Members

7.1.5.1 The Corporation must nominate individuals to be public members and industry members of the hearing committee in its District.

7.1.6 Appointment of Hearing Committee members

7.1.6.1 The Appointments Committee must appoint to the hearing committee of each District a number of suitable and qualified individuals sufficient to conduct hearings in the District.

7.1.6.2 In considering the suitability and qualifications of an individual who is nominated for membership on a hearing committee, the Appointments Committee must take into account the individual's:

(a) general knowledge of business practices and securities laws,

(b) experience,

(c) regulatory background,

(d) availability for hearings,

(e) reputation in the securities industry,

(f) ability to conduct hearings in French or English, and

(g) eligibility to serve in a particular District.

7.1.6.3 An individual who:

(a) is currently or has been within the previous eighteen months an employee of a Member or an affiliate of a Member, or

(b) represents any parties to enforcement or other proceedings under the By-laws or Rules or any person in connection with the By-laws or Rules, or

(c) would otherwise raise a reasonable apprehension of bias with respect to matters that may come before a Hearing Panel,

is not eligible for appointment or membership as a public member of a hearing committee.

7.1.6.4 The Appointments Committee must appoint a chair of each hearing committee.

7.1.7 Term of Appointment

7.1.7.1 Appointment of an individual to a hearing committee is for a three-year term.

7.1.7.2 A hearing committee member may be reappointed to successive terms.

7.1.7.3 If a hearing committee member's term expires without reappointment during a hearing in which the member is serving on the Hearing Panel, the member's term is extended automatically until the completion of the hearing or if the hearing is a hearing on the merits, the proceeding.

7.1.8 Removal

7.1.8.1 The Appointments Committee may remove a hearing committee member who:

(a) ceases to reside in the hearing committee's District,

(b) is precluded from acting as a hearing committee member by a law applicable in the District,

(c) in the Appointments Committee's opinion, will raise a reasonable apprehension of bias with respect to matters that may come before a Hearing Panel, or

(d) for any other reason, ceases to be suitable or qualified to be a hearing committee member.

7.1.8.2 An individual who is removed by the Appointments Committee must not continue to serve on a Hearing Panel in any proceeding.

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~~7.1~~7.2 Hearing Panels

The authority of a ~~Regional Council~~ hearing committee under ~~Sections 20~~Rules 7.3 and ~~24~~ 7.4 shall be exercised on its behalf by a Hearing Panel appointed from the members of the ~~Regional Council~~ hearing committee. Hearing Panels shall be composed of:

(a) 3 members of the ~~Regional Council~~ hearing committee: 1 public representative, who will be the Chair of the Hearing Panel, and 2 industry representatives who may be either elected or appointed members of the ~~Regional Council~~ hearing committee, ~~but shall not include ex-officio members of the council~~ or

(b) 2 members of the ~~Regional Council~~ hearing committee: 1 public representative who will be the Chair of the Hearing Panel and 1 industry representative in the event that an industry representative in (a) above is unable to continue to serve on a Hearing Panel. The Chair of the Hearing Panel shall decide whether or not to proceed with a 2 member Hearing Panel.

Appointments of members to a Hearing Panel shall be made in accordance with the rules of procedures prescribed pursuant to ~~Section 19.12~~ Rule 7.2.4.

~~7.1.1~~7.2.1 Cross-Appointments of Members of Hearing Panels

Members of one ~~Regional Council~~ hearing committee shall be eligible to sit on a Hearing Panel in another Region provided that the Chairs of each of the applicable ~~Regional Councils~~ hearing committees consent.

~~7.1.2~~7.2.2 Duties of the Chair

In addition to the adjudicative duties of the Chair as a member of a Hearing Panel, the Chair shall perform any and all responsibilities set out by the Board in rules of procedure relating to Hearing Panels.

~~7.1.3~~7.2.3 Procedures Regarding Hearing Panels

The Corporation may prescribe rules of procedures (which may be Policies) in respect of all matters relevant to the appointment of Hearing Panels and the conduct of hearings as contemplated by these Rules ~~By-laws~~ including, without limitation, regarding the assignment of ~~Regional Council~~ hearing committee members to Hearing Panels, conflicts of interest, the eligibility of elected and appointed representatives to sit on Hearing Panels, the ability of ~~Regional Council~~ hearing committee members to continue on a Hearing Panel during an ongoing hearing, compensation of members of Hearing Panels and reimbursement of costs.

7.1.47.2.4 Despite ~~Section 19.9~~Rule 7.2, 1 public representative of a ~~Regional Council~~ hearing committee may be designated to act on behalf of a Hearing Panel for the purpose of hearing and determining:

(a) an application under ~~Section 24.3~~Rule 7.4.3 except a review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6; and

(b) any procedural matter or motion relating to the conduct of a disciplinary hearing under ~~Sections 20~~Rule 7.3 and ~~24~~ 7.4 including, without limitation, granting adjournments, setting dates for hearings, and making any other orders or directions that a Hearing Panel is authorized to make under the Corporation's rules of procedure, except a final determination of a disciplinary proceeding.

~~7.2~~7.3 Disciplinary Hearings

7.2.17.3.1 Notice of Hearing

7.2.1.17.3.1.1 Contents of Notice

Before a Hearing Panel may impose any of the penalties provided for in ~~Section 24.1~~ Rule 7.4.1 hereof (other than pursuant to the approval of a settlement agreement pursuant to ~~Section 24.4~~ Rule 7.4.4), the Member, Approved Person or other person, as the case may be, shall have been summoned before a hearing of such Hearing Panel, of which notice shall be given in accordance with such period of time as is provided for in the Corporation's rules of procedure, by way of Notice of Hearing, to the Member or person concerned. Such Notice of Hearing shall be in writing, shall be signed by an officer of the Corporation and contain:

(a) the date, time and place of the hearing;

(b) the purpose of the hearing;

(c) the authority pursuant to which the hearing is held;

(d) a summary of the facts alleged and intended to be relied upon by the Corporation and the conclusions drawn by the Corporation based on the alleged facts; and

(e) the provisions of ~~Sections 20.2~~ Rules 7.3.2 to ~~20.4~~7.3.4 inclusive and a description of the penalties and costs which may be imposed pursuant to ~~Sections~~ Rules ~~24.1~~ 7.4.1 and ~~24.2~~7.4.2, respectively.

7.2.1.27.3.1.2 Notice Addressed to Corporation

Any notice to a Hearing Panel must be in writing and addressed to the Corporation in care of the office of the Corporation having responsibility for the applicable ~~Regional Council~~ hearing committee.

~~7.2.1.3~~7.3.1.3 Notice to Members in the Case of an Individual

In the case of an individual summoned before a hearing of a Hearing Panel, the Member or Members concerned shall be served with a copy of the Notice of Hearing.

~~7.2.1.4~~7.3.1.4 Publication of Notices

A Notice of Hearing shall be published in the same manner as a notice of penalty pursuant to ~~Section 24.5~~Rule 7.4.5.

~~7.2.1.5~~7.3.1.5 Right to be Heard

The Member or person summoned pursuant to ~~Section 20.1~~Rule 7.3.1 and the Corporation shall be entitled to appear and be heard at the hearing and shall be entitled to be represented by counsel or an agent and to call, examine and cross-examine witnesses and present evidence and submissions.

~~7.2.2~~7.3.2 Reply

A Member or person summoned before a hearing of a Hearing Panel pursuant to a Notice of Hearing shall, within such period of time as is provided for in the Corporation's rules of procedure, serve on the Corporation a reply that either:

~~7.2.2.1~~7.3.2.1 specifically denies (with a summary of the facts alleged and intended to be relied upon by the Member or person, and the conclusions drawn by the Member or person based on the alleged facts) any or all of the facts alleged or the conclusions drawn by the Corporation in the Notice of Hearing; or

~~7.2.2.2~~7.3.2.2 admits the facts alleged and conclusions drawn by the Corporation in the Notice of Hearing and pleads circumstances in mitigation of any penalty to be assessed.

~~7.2.3~~7.3.3 Acceptance of Facts and Conclusions

The Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the Corporation in the Notice of Hearing that are not specifically denied in the reply.

~~7.2.4~~7.3.4 Failure to Reply or Attend

If a Member or person summoned before a hearing of a Hearing Panel by way of Notice of Hearing fails to:

(a) serve a reply in accordance with ~~Section 20.2~~Rule 7.3.2; or

(b) attend at the hearing specified in the Notice of Hearing, notwithstanding that a reply may have been served;

the Hearing Panel may proceed with the hearing of the matter on the date and at the time and place set out in the Notice of Hearing (or on any subsequent date, at any time and

place), without further notice to and in the absence of the Member or person, and the Hearing Panel may accept the facts alleged by the Corporation in the Notice of Hearing as having been proven by the Corporation and may impose any of the penalties described in ~~Section 24.1~~Rule 7.4.1.

~~7.2.5~~7.3.5 Open to the Public

A hearing pursuant to ~~Section 20~~Rule 7.3 shall be open to the public except where the Hearing Panel is of the opinion that intimate financial or personal matters or other matters may be disclosed at the hearing which are of such a nature, having regard to the circumstances, that the desirability of avoiding disclosure thereof in the interests of any person affected or in the public interest outweighs the desirability of adhering to the principle that hearings be open to the public, in which case the Hearing Panel may hold the hearing in camera.

~~7.2.6~~7.3.6 Parties to the Proceedings and Witnesses

~~7.2.6.1~~7.3.6.1 Parties to Proceedings

The parties to proceedings before a Hearing Panel are:

(a) the Corporation, which shall be represented by the Corporation, or any person designated by it; and

(b) in the case of:

(i) an individual, the individual and, in the discretion of the Hearing Panel, the Member concerned;

(ii) a Member, the Member.

~~7.2.6.2~~7.3.6.2 Attendance or Production

Every Member, Approved Person and other person under the jurisdiction of the Corporation may be required by a Hearing Panel:

(a) to attend before it at any of its proceedings and give information respecting any matter involved in the proceeding; and

(b) to produce for inspection and provide copies of any books, records and accounts of such person, or within such person's possession and control, relevant to the matters being considered.

~~7.2.6.3~~7.3.6.3 Required Attendance of Employee or Agent of Member

In the event that a Hearing Panel requires the attendance before it of any employee or agent of a Member who is not under the jurisdiction of the Corporation, the Member shall direct such employee or agent to attend and to give information or make such production as could be required of a person referred to in ~~Section 20.6.2~~Rule 7.3.6.2.

~~7.2.7~~7.3.7 Reasons

Any decision of a Hearing Panel at a hearing held pursuant to ~~Section 20~~Rule 7.3 shall be in writing and shall contain a concise statement of the reasons for the decision. Notice of a decision shall be delivered to the Secretary who shall then promptly give notice, in the case of an individual, to the individual and to the Member concerned, or in the case of a Member, to the Member. A copy of the decision shall accompany the notice.

~~7.3~~7.4 Discipline Powers

~~7.3.1~~7.4.1 Power of Hearing Panels to Discipline

~~7.3.1.1~~7.4.1.1 Approved Persons

A Hearing Panel ~~of the applicable Regional Council~~ shall have power to impose upon an Approved Person or any other person under the jurisdiction of the Corporation any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by such person as a result of committing the violation;

(c) suspension of the authority of the person to conduct securities related business for such specified period and upon such terms as the Hearing Panel may determine;

(d) revocation of the authority of such person to conduct securities related business;

(e) prohibition of the authority of the person to conduct securities related business in any capacity for any period of time;

(f) such conditions of authority to conduct securities related business as may be considered appropriate by the Hearing Panel;

if, in the opinion of the Hearing Panel, the person:

(g) has failed to carry out any agreement with the Corporation;

(h) has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Member or of any regulation or policy made pursuant thereto;

(i) has failed to comply with the provisions of any By-law or Rules ~~or Policy~~ of the Corporation;

(j) has engaged in any business conduct or practice which such ~~Regional Council~~ Hearing Panel in its discretion considers unbecoming or not in the public interest; or

(k) is otherwise not qualified whether by integrity, solvency, training or experience.

~~7.3.1.2~~7.4.1.2 Members

A Hearing Panel ~~of the applicable Regional Council~~ shall have power to impose upon a Member any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by the Member as a result of committing the violation;

(c) Suspension of the rights and privileges of the Member (and such suspension may include a direction to the Member to cease conducting securities related business) for such specific period and upon such terms as such Hearing Panel may determine, or, if the rights and privileges have already been suspended under ~~Section 24.3~~Rule 7.4.3, the continuation of such suspension (including a prohibition on the Member conducting securities related business) for such specified period and upon such terms as such Hearing Panel may determine;

(d) termination of any and all of the rights and privileges of Membership;

(e) expulsion of the Member from the Corporation;

(f) such terms and conditions on Membership of the Member as may be considered appropriate by the Hearing Panel;

(g) appointment of a monitor in accordance with ~~Section 24.7~~Rule 7.4.7; and

(h) directions for the orderly transfer of client accounts from the Member;

if, in the opinion of the Hearing Panel, the Member:

(i) has failed to carry out any agreement with the Corporation;

(j) has failed to meet any liabilities to another Member or to the public;

(k) has engaged in any business conduct or practice which the Hearing Panel in its discretion considers unbecoming a Member or not in the public interest;

(l) has ceased to be qualified as a Member by reason of the ownership, integrity, solvency, training or experience of the Member or any of its Approved Persons or

other employees or agents, or any person having an ownership interest in the capital or indebtedness of the Member;

(m) has failed to comply with or carry out the provisions of any of the By-laws or Rules ~~or Policies~~ of the Corporation; or

(n) has failed to comply with or carry out the provisions of any applicable federal or provincial statute relating to its business or of any regulation or policy made pursuant thereto.

~~7.3.1.3~~7.4.1.3 Continuation of Liability

If the rights, privileges or Membership of a Member are suspended or terminated or a Member is expelled from the Corporation, the Member or former Member shall remain liable to the Corporation for all amounts due to the Corporation by it.

~~7.3.1.4~~7.4.1.4 Jurisdiction

(a) *Former Members*. For the purposes of Rules 6.1, 6.2, 6.3, 7.3 and 7.4 ~~Sections 20 to 24~~ inclusive, any Member, Approved Person or other person subject to the jurisdiction of the Corporation shall remain subject to the jurisdiction of the Corporation notwithstanding that such Member has ceased to be a Member, Approved Person or other person subject to the jurisdiction of the Corporation.

(b) *Limitation.* No proceedings shall be commenced pursuant to ~~Section 20.1~~Rule 7.3.1 against a former Member or person referred to in ~~Section 24.1.4~~Rule 7.4.1.4(a) unless a Notice of Hearing has been served upon such Member or person no later than five years from the date upon which such Member or person ceased to be a Member or held the relevant position with the Member, respectively.

~~7.3.2~~7.4.2 Costs

A Hearing Panel may in any case in its discretion require that the Member or Approved Person pay the whole or part of the costs of the proceedings before the Hearing Panel pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 or ~~Section 24.3~~Rule 7.4.3 and any investigations relating thereto.

~~7.3.3~~7.4.3 Applications in Exceptional Circumstances

~~7.3.3.1~~7.4.3.1 Approved Persons

Notwithstanding anything in ~~Section 20~~Rule 7.3 or ~~Section 24~~Rule 7.4,

(a) a Hearing Panel ~~of the applicable Regional Council~~ may, upon application by the Corporation made with or without notice to an Approved Person or any other person under the jurisdiction of the Corporation, impose any of the penalties provided for in ~~Section 24.3.3~~Rule 7.4.3.3 upon the person in the event that:

(i) the registration of the person under any securities legislation in any jurisdiction inside or outside Canada is cancelled, suspended, terminated, subjected to terms and conditions or the person fails to renew any such registration which has lapsed;

(ii) a securities commission, self-regulatory organization, securities regulatory authority, financial services regulator or professional licensing or registration body in any jurisdiction inside or outside Canada cancels, suspends or terminates the rights and privileges of the person;

(iii) the person fails to cooperate with an examination or investigation conducted pursuant to ~~Section 21~~Rule 6;

(iv) the person has failed to carry out any written agreement with the Corporation to take action to comply with any By-law or Rules of the Corporation;

(v) the person has failed to comply with the provisions of any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(vi) the person has been charged with a criminal or regulatory offence relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading and the Hearing Panel determines that such charge likely brings the capital markets into disrepute;

(vii) the Corporation receives information regarding the incapacity of the person, by reason of mental or physical illness, other infirmity or addiction to or excessive use of alcohol or drugs; or

(viii) the person has failed to comply with any penalties, other than the payment of a fine or costs, imposed on the person pursuant to ~~Section 24.1.1~~Rule 7.4.1.1, ~~Section 24.3~~Rule 7.4.3 or ~~Section 24.4~~Rule 7.4.4.

(b) A Hearing Panel may impose a penalty under ~~section 24.3.3~~Rule 7.4.3.3 on an Approved Person or any other person under the jurisdiction of the Corporation on an application made under ~~Section 24.3.1~~Rule 7.4.3.1(a) without notice only if the Hearing Panel determines that proceeding without notice is, in the circumstances, in the public interest, including but not limited to where:

(i) providing notice to the Approved Person or any other person under the jurisdiction of the Corporation, would be likely to result in financial loss or imminent harm to the public, to other Approved Persons or Members, or to the Corporation; or

(ii) the length of time required to arrange for and conduct a hearing pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 would be prejudicial to the public interest.

~~7.3.3.2~~7.4.3.2 Members

Notwithstanding anything in ~~Section 20~~Rule 7.3 or ~~Section 24~~Rule 7.4,

(a) a Hearing Panel ~~of the applicable Regional Council~~ may, upon application by the Corporation made with or without notice to a Member, impose any of the penalties provided for in ~~Section 24.3.3~~Rule 7.4.3.3 upon the Member in the event that:

(i) the registration of the Member as a mutual fund dealer under any securities legislation in any jurisdiction inside or outside Canada is cancelled, suspended, terminated, subjected to terms and conditions or the Member fails to renew any such registration which has lapsed;

(ii) the Member makes a general assignment for the benefit of its creditors or is declared bankrupt or makes an authorized assignment or a proposal to its creditors under the Bankruptcy and Insolvency Act, or a winding-up order is made in respect of the Member or a receiver or other officer with similar powers is appointed in respect of all or any part of the undertaking and property of the Member;

(iii) securities commission, self-regulatory organization, financial services regulator or other securities regulatory authority inside or outside Canada cancels, suspends or terminates the rights and privileges of the Member;

(iv) the Member has failed to maintain the minimum capital required under any By-law, Rule or Form ~~or Policy~~ of the Corporation;

(v) the Member has failed to file with the Corporation a copy of a financial report of the Member as at the end of each fiscal month as required under any By-law or Rules of the Corporation;

(vi) the Member has failed to file with the Corporation copies of the annual audited financial statements of the Member as required under any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(vii) the Member has failed to maintain a Financial Institution Bond or mail insurance as required under any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(viii) the Member has failed to rectify the circumstances causing the Member to be designated in early warning by the Corporation or has failed to comply with terms and conditions imposed on the Member after it was designated in early warning by the Corporation;

(ix) the Member has failed to cooperate with an examination or investigation conducted pursuant to ~~Section 21~~Rule 6.1;

(x) the Member has failed to carry out any written agreement with the Corporation to take action to comply with any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(xi) the Member has failed to comply with the provisions of any By-law~~, Rule or Policy~~ or Rules of the Corporation;

(xii) the Member is in such financial or operating difficulty that a Hearing Panel determines that the Member cannot be permitted to continue to operate

without risk of imminent harm to the public, to other Members or Approved Persons, or to the Corporation;

(xiii) the Member has been charged with a criminal or regulatory offence relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading and the Hearing Panel determines that such charge likely brings the capital markets into disrepute;

(xiv) the Member has given notice of its intention to resign or is not carrying on business as a mutual fund dealer; or

(xv) the Member has failed to comply with any penalties, other than the payment of a fine or costs, imposed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2, ~~Section 24.3~~Rule 7.4.3 or ~~Section 24.4~~Rule 7.4.4.

(b) A Hearing Panel may impose a penalty under ~~section 24.3.3~~Rule 7.4.3.3 on a Member on an application made under ~~Section 24.3.2~~Rule 7.4.3.2(a) without notice only if the Hearing Panel determines that proceeding without notice is, in the circumstances, in the public interest, including but not limited to where:

(i) providing notice to the Member would be likely to result in financial loss or imminent harm to the public, to other Members or Approved Persons, or to the Corporation; or

(ii) the length of time required to arrange for and conduct a hearing pursuant to ~~Section 20~~Rule 7.3 and ~~Section 24.1~~Rule 7.4.1 would be prejudicial to the public interest.

~~7.3.3.3~~7.4.3.3 Powers of a Hearing Panel

A Hearing Panel shall have the power to impose any of the following penalties upon a Member, Approved Person or other person under the jurisdiction of the Corporation in an application made pursuant to ~~Section 24.3.1~~Rule 7.4.3.1 or ~~Section 24.3.2~~Rule 7.4.3.2:

(a) suspension of any or all of the rights and privileges of Membership or authority of the person to conduct securities related business on such terms and conditions as the Hearing Panel considers appropriate;

(b) terms and conditions on Membership or the authority of the person to conduct securities related business;

(c) direction to immediately cease dealing with the public;

(d) direction for the orderly transfer of client accounts from the Member;

(e) for events other than those referred to in ~~Sections 24.3.1~~Rules 7.4.3.1(a)(vi) and (vii) and ~~Section~~ Rule ~~24.3.2~~ 7.4.3.2(a)(xiii), termination of Membership or prohibition of the authority of the person to conduct securities related business;

(f) for events other than those referred to in ~~Section 24.3.2~~Rule 7.4.3.2(a)(xiii), expulsion of the Member from the Corporation; and

(g) appointment of a monitor in accordance with ~~Section 24.7~~Rule 7.4.7.

~~7.3.3.4~~7.4.3.4 Notice in Certain circumstances

At any stage of an application pursuant to ~~Section 24.3~~Rule 7.4.3, a Hearing Panel may in its discretion require notice of the application to be given to a Member, Approved Person, or other person on such terms and conditions as it considers appropriate, including terms and conditions respecting the timing of notice and any abridging of ordinary hearing processes that the Panel considers fit.

~~7.3.3.5~~7.4.3.5 Other Proceedings

Nothing contained in ~~Section 24.3~~Rule 7.4.3 shall prevent any other proceedings being taken against a Member, Approved Person or other person under the jurisdiction of the Corporation pursuant to any other provisions of ~~Section 24~~Rule 7.4.

~~7.3.3.6~~7.4.3.6 Review of an Application

A Member or person may request a review of any decision made pursuant to ~~Section 24.3~~Rule 7.4.3 within 30 days of notice of the penalty being given in accordance with ~~Section 24.5.3~~Rule 7.4.5.3.

~~7.3.3.7~~7.4.3.7 Timing of a Review

A review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 shall be held before a Hearing Panel ~~of the applicable Regional Council~~ no later than 21 days after the request for the review, unless a Hearing Panel directs or the parties agree otherwise.

~~7.3.3.8~~7.4.3.8 Review Panel

No member of a Hearing Panel who participated in an application pursuant to ~~Section 24.3~~Rule 7.4.3 shall sit on a Hearing Panel constituted for the review of that decision.

~~7.3.3.9~~7.4.3.9 Decision is Final Where no Review

If a Member or person does not request a review of an application within the time prescribed in ~~Section 24.3.6~~Rule 7.4.3.6, then the decision of the Hearing Panel is final and there shall be no further review or appeal of the decision within the Corporation.

~~7.3.3.10~~7.4.3.10 Stay Pending Review of an Application

An order of a Hearing Panel made pursuant to ~~Section 24.3~~Rule 7.4.3 takes effect upon its issuance and remains in effect pending a review under ~~Section 24.3.6~~Rule 7.4.3.6, unless a Hearing Panel directs otherwise.

~~7.3.3.11~~7.4.3.11 Powers of a Hearing Panel on a Review of an Application

A Hearing Panel presiding over the review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 may affirm, quash or vary the decision under review and may make any decision that could have been made by a Hearing Panel under ~~Section 24.3~~Rule 7.4.3.~~.~~

~~7.3.3.12~~7.4.3.12 Open to the Public

An application pursuant to ~~Section 24.3~~Rule 7.4.3 and the review of an application pursuant to ~~Section 24.3.6~~Rule 7.4.3.6 shall be open to the public except where:

(a) the application proceeds without notice to the Member or person;

(b) the application or review of the application is conducted in writing or the Hearing Panel determines that it is not practical to conduct the application or review of the application in a manner that is open to the public; or

(c) the Hearing Panel is of the opinion that intimate financial or personal matters or other matters may be disclosed at the hearing which are of such a nature, having regard to the circumstances, that the desirability of avoiding disclosure thereof in the interests of any person affected or in the public interest outweighs the desirability of adhering to the principle that hearings be open to the public, in which case the Hearing Panel may conduct the application or review of the application in camera.

~~7.3.3.13~~7.4.3.13 Failure to Pay Fee, Levy, Assessment, Fine or Costs

In the event that:

(a) a Member fails to pay a fee pursuant to ~~Section 14~~Rule 8.5 or ~~Section 15~~ Section 3.4 of General By-law No.1 within the time prescribed in ~~Section 14.3~~Rule 8.5.3 or pursuant to ~~Section 15.2~~Section 3.4 of General By-law No. 1 respectively;

(b) a Member fails to pay a fee, levy or assessment pursuant to any By-law~~, Rule or Policy~~ or Rules of the Corporation within the time prescribed; or

(c) a Member or person fails to pay a fine or costs imposed by a Hearing Panel within the time prescribed by the Hearing Panel;

the Corporation may summarily, without further notice, suspend the rights and privileges of the Member or the authority of the person to conduct securities related business until such fee, levy, assessment, fine or costs is paid.

~~7.3.4~~7.4.4 Settlement Agreements

~~7.3.4.1~~7.4.4.1 Power to Enter into Settlement Agreement

The Corporation or any other person designated by it or the Board of Directors may negotiate a settlement agreement with a Member, Approved Person or other person under the jurisdiction of the Corporation, in respect of any matters for which the Member or person could be penalized on the exercise of the discretion of a Hearing Panel pursuant to ~~Section 24.1~~Rule 7.4.1.

~~7.3.4.2~~7.4.4.2 Contents of Settlement Agreement

A settlement agreement shall be in writing and be signed by or on behalf of the Member or person and shall contain:

(a) a statement of facts sufficient to identify the matter to which the settlement agreement relates;

(b) a reference to any statutes or regulations thereto, By-law~~,~~ or Rules ~~or Policies~~ of the Corporation with which the Member or person has not complied and a statement as to future compliance therewith;

(c) the consent and agreement of the Member or person to the terms of the settlement agreement;

(d) the acceptance of the penalty to which the Member or person could be subject pursuant to ~~Section 24.1~~Rule 7.4.1;

(e) the waiver of the rights of the Member or person to a hearing pursuant to the By-laws and all rights of review thereunder; and

(f) such other matters not inconsistent with ~~Section 24.4.2~~Rule 7.4.4.2(a) to (e), inclusive, which may be agreed upon including, without limitation, the agreement by the Member or person to pay the whole or part of the costs of the investigation and any proceedings relating to the matters which are the subject of the settlement agreement.

~~7.3.4.3~~7.4.4.3 Review and Determination by Hearing Panel

Such settlement agreement shall, on the recommendation of the Corporation, be referred to a Hearing Panel ~~of the applicable Regional Council~~ which shall:

(a) accept the settlement agreement; or

(b) reject it.

A Hearing Panel shall not consider a settlement agreement pursuant to this ~~Section~~ Rule unless notice of the hearing has been given in accordance with such period of time as is provided for in the Corporation's rules of procedure and ~~Section 24.5~~Rule 7.4.5 specifying:

(c) the date, time and place of the hearing; and

(d) the purpose of the hearing with sufficient information to identify the Member or Approved Person involved and the general terms of the settlement agreement.

~~7.3.4.4~~7.4.4.4 Binding Upon Acceptance or Imposition

A settlement agreement shall only become binding in accordance with its terms upon such acceptance and, in such event, the Member or person shall be deemed to have been penalized by a Hearing Panel ~~of the applicable Regional Council~~ for the purpose of giving notice thereof.

~~7.3.4.5~~7.4.4.5 Rejection of Settlement Agreement by Hearing Panel

If a Hearing Panel rejects a settlement agreement pursuant to ~~Section 24.4.3~~Rule 7.4.4.3, the provisions of ~~Sections 20, 21~~Rules 6.1, 7.3 and ~~24.1~~ 7.4.1 shall apply, provided that no member of the Hearing Panel who participated in the deliberations of the Hearing Panel rejecting the settlement agreement shall participate in any hearing conducted by the Hearing Panel with respect to the same matters which are the subject of the agreement.

~~7.3.4.6~~7.4.4.6 Without Prejudice

All negotiations of a settlement agreement shall be without prejudice and the negotiations may not be used as evidence or referred to in any hearing.

~~7.3.4.7~~7.4.4.7 No Appeal of Acceptance or Rejection of Settlement Agreement

The acceptance or rejection of a settlement agreement by a Hearing Panel is final and is not subject to appeal or review pursuant to ~~Section 24.6.3~~Rule 7.4.6.3.

~~7.3.5~~7.4.5 Publication of Notice and Penalties

~~7.3.5.1~~7.4.5.1 Notice Requirements

If and whenever a Member, Approved Person or other person is penalized by a Hearing Panel, notice of the penalty and notice of the disposition of any review from the imposition thereof shall be given forthwith by the Corporation. If such penalty is subject to review the notice shall so indicate.

~~7.3.5.2~~7.4.5.2 Content of Notice

A notice of penalty given pursuant to ~~Section 24.5.1~~Rule 7.4.5.1 shall include a summary of the facts, shall specify the By-law~~,~~ and ~~-~~Rules ~~or Policies~~ violated and the penalty assessed, and shall include the name of the Member or person upon which the penalty is

imposed and, in the case of a penalty imposed upon an Approved Person or other person, shall include the name of the Member employing or retaining such person at the relevant time.

~~7.3.5.3~~7.4.5.3 Method of Giving Notice

A notice of penalty given pursuant to ~~Section 24.5.1~~Rule 7.4.5.1 shall be given:

(a) by publication in a Corporation bulletin;

(b) by delivery of the notice to a news service or newspaper having national distribution;

(c) by delivery of the notice to any securities commission, stock exchange, self-regulatory organization or other securities regulatory authority having jurisdiction over the Member or individual concerned, and

(d) to such other persons, organizations or corporations, and in such other manner as the Hearing Panel imposing the penalty, and/or as the Corporation from time to time, deems advisable.

~~7.3.6~~7.4.6 Effect and Review of Hearing Panels Decisions

~~7.3.6.1~~7.4.6.1 Effect in All Regions

Any decision of a Hearing Panel in respect of a Member, an Approved Person or other person subject to the jurisdiction of the Corporation shall have effect in all regions where the Corporation has jurisdiction, unless and until otherwise ordered by the Board of Directors.

~~7.3.6.2~~7.4.6.2 Review

The Board of Directors shall, upon the application of either the Corporation or the Member made within 30 days of receiving notice of the decision of the Hearing Panel, review the said decision and confirm or modify the decision of the Hearing Panel.

~~7.3.6.3~~7.4.6.3 Review Hearing

With respect to a review pursuant to ~~Section 24.6.2~~Rule 7.4.6.2:

(a) the provisions of ~~Sections 24.1~~Rule 7.4 apply mutatis mutandis to any review by the Board of Directors;

(b) the Board of Directors:

(i) shall consider the record of the proceedings before the Hearing Panel;

(ii) shall permit the parties to appear before it on reasonable notice, with counsel or by agent, to make submissions and the provisions of ~~Section 20.7~~Rule 7.3.7 apply mutatis mutandis; and

(c) Members of the Board of Directors participating in a review hearing pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3 shall not have taken part before the hearing in any proceedings with respect to the decision which is being reviewed. Subject to the provisions of ~~Section 26~~ Rule 7.5, decisions of the Board of Directors pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3 are final and there shall be no further review of such decisions within the Corporation.

(d) For the purposes of a review hearing conducted pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3, the authority of the Board of Directors may be exercised by a committee of the Board of Directors appointed pursuant to ~~Section 3.6.4~~Section 11.1 of General By-law No. 1, provided that such committee shall include 1 public representative of a ~~Regional Council~~ hearing committee who has not taken part in any proceedings with respect to the decision which is being reviewed, which public representative shall be entitled to participate in the review as if he or she was a member of the Board of Directors.

(e) The Board of Directors may in any case in its discretion require that a Member pay the whole or part of the costs of a review hearing pursuant to this ~~Section 24.6.3~~Rule 7.4.6.3.

~~7.3.6.4~~7.4.6.4 Stay of Proceedings

An order of a Hearing Panel takes effect upon its issuance and remains in effect pending a review under ~~Section 24.6.2~~Rule 7.4.6.2, unless the Hearing Panel or the Board of Directors directs otherwise.

~~7.3.6.5~~7.4.6.5 Prohibition Against Review By Court or Tribunal

Except as provided in ~~Section 26~~Rule 7.5, no proceedings shall be taken in any court or other tribunal to question or review any decision, order, direction, declaration or ruling of a Hearing Panel or the Board of Directors or to prohibit or restrain any Hearing Panel or the Board of Directors or their proceedings.

~~7.3.7~~7.4.7 Monitor

~~7.3.7.1~~7.4.7.1 Powers of a Monitor

A monitor appointed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2(g) or ~~Section 24.3.3~~Rule 7.4.3.3(g) shall oversee and report on the Member's activities in accordance with any of the following terms and conditions and for such specified period as the Hearing Panel may determine:

(a) to enter and re-enter the Member's premises and to remain on site to conduct day-to-day monitoring of all of the Member's activities, including but not limited to,

monitoring and review of accounts receivable, accounts payable, client accounts, the Member's banking, any books or records of the Member, trading conducted by or on behalf of the Member for its own account or the account of its clients, payment of any debts or the creation of new debt and any reconciliation required to be completed by the Member;

(b) to make copies of information and to provide copies of such information to the Corporation or any other agency the Hearing Panel determines appropriate;

(c) to provide ongoing reporting of the monitor's findings or observations to the Corporation or any other agency the Hearing Panel determines appropriate;

(d) to monitor compliance by the Member with any terms or conditions which have been imposed on the Member by the Corporation or any other regulator, including but not limited to, compliance with early warning terms and conditions;

(e) to verify and assist with the preparation of any regulatory filings, including but not limited to, the calculation of risk adjusted capital;

(f) to conduct or have conducted an appraisal of the Member's net worth or valuation of any part of the Member's assets;

(g) to assist the Member with the orderly transfer of client accounts;

(h) to pre-authorize any issuance of cheques or payments made by or on behalf of the Member or distribution of any of the Member's assets;

(i) to assist the Member in formulating a process to address deficiencies identified by the Corporation;

(j) to assist the Member in developing and implementing procedures and internal controls to ensure the Member's compliance with any By-law or Rules of the Corporation;

(k) to test and report on the adequacy of the Member's procedures and internal controls; and

(l) any other terms or conditions that the Hearing Panel may determine.

~~7.3.7.2~~7.4.7.2 Expenses of the Monitor

A Hearing Panel may in its discretion require that the Member pay the whole or part of the expenses related to a monitor appointed pursuant to ~~Section 24.1.2~~Rule 7.4.1.2(g) or ~~Section 24.3.3~~Rule 7.4.3.3(g).

7.3.87.4.8 Suspended Members

Subject to any penalties imposed pursuant to Section 24.1Rule 7.4.1 or Section 24.3Rule 7.4.3, during the period of suspension a suspended Member shall not be entitled to exercise the rights and privileges of Membership and without limiting the generality of the foregoing, the suspended Member:

(a) shall not be entitled to attend or vote at meetings pursuant to Section 12.24.1 and Section 12.34.2 of General By-law No. 1;

(b) shall remove from its premises any reference to its Membership in the Corporation;

(c) shall no longer use reference to its Membership in the Corporation in its advertisements, letterhead or other material;

(d) shall be designated as "Suspended" in the Corporation's directory of Members; and

(e) shall continue to be liable for the payment of its Annual Fee pursuant to Section 14Rule 8.5, other fees pursuant to Section 15 and any other fees, levies or assessments pursuant to any By-law, Rule or Policy or Rules of the Corporation.

7.47.5Review of Decisions

7.4.17.5.1 The Corporation or any Member, Approved Person or other person directly affected by a decision of the Board of Directors, a Regional Council hearing committee or the Corporation in respect of which no further review or appeal is provided in the By-laws may request any securities commission given jurisdiction in the matter under its enabling legislation to review such decision and notice in writing of such review shall be given forthwith to the Corporation.

7.4.27.5.2 An order of the Board of Directors takes effect upon its issuance and remains in effect pending a review under Section 26.1 Rule 7.5.1, unless the Board of Directors or a securities commission given jurisdiction in the matter under its enabling legislation directs otherwise.

7.57.6Ombudservice

7.5.17.6.1 Participation in Ombudservice

Each Member shall participate in an ombudservice approved by the Board of Directors. On the client's request, any dispute, claim or controversy between a Member and a client may be submitted by the client to the ombudservice. The determination of eligibility of any dispute, claim or controversy shall be made by the ombudservice according to criteria defined in the service's terms of reference. The Member shall comply with and be bound by the rules, procedures and standards of the ombudservice. The ombudsman's recommendations with respect to any eligible dispute, claim or controversy are non-binding on each Member who participates in the service.

~~7.5.2~~7.6.2 No Effect on Jurisdiction

Neither the participation of a Member in the ombudservice nor any recommendations made by the ombudservice in respect of the Member shall affect the jurisdiction of the Corporation or any of the Board, a ~~Regional Council~~ hearing committee, committee or member, representative or employee of any of them, from exercising any authority under the Articles, By-laws, Rules ~~, Policies~~ or Forms of the Corporation or a ~~Regional Council~~ hearing committee.

~~7.5.3~~7.6.3 Submission of Information

A Member, or any Approved Person, that is requested by the ombudservice to provide information in connection with an investigation shall submit the requested information, books, records, reports, filings and papers to the service in such manner and form, including electronically, as may be prescribed by such service.

8 RULE 8 - MEMBERSHIP MATTERS

8.1 Applications – Submission of Financial Information

~~The~~ An application submitted under section 3.5(1) of General By-law No.1 shall be accompanied by:

8.1.1 financial statements of the applicant as of a date not more than 90 days prior to the date of application for Membership (or as of such other date as the Corporation may require), prepared in accordance with Form 1 and audited by an auditor acceptable to the Corporation;

8.1.2 interim unaudited monthly financial statements, prepared in accordance with Form 1, for the period following the date of the audited financial statement submitted under Rule ~~Section 11.2.1~~8.1.1 up to the most recent month prior to the date of the Membership application;

8.1.3 a report by the applicant's auditor to the effect that, based on his examination of the affairs of the applicant, the applicant keeps a proper system of books and records; and

8.1.4 such additional financial information, if any, relating to the applicant as the Corporation may in its discretion request.

8.2 Review

8.2.1 In the event of a decision of the Board of Directors

(a) to approve an application subject to terms and conditions pursuant to Section ~~11.4.2~~ 3.5(8) of General By-law No.1;

(b) to refuse an application pursuant to Section ~~11.4.3~~ 3.5(8) of General By-law No.1;

(c) to order a period of time in which an applicant may not apply or reapply pursuant to Section ~~11.4.4~~3.5(10) of General By-law No.1; or

(d) to vary terms and conditions in a manner that would be more burdensome to an applicant pursuant to Section 3.5(9) of General By-law No.1~~on 11.5~~,

the Board of Directors shall, upon application by the applicant, made on notice in accordance with the rules of procedure adopted by the Corporation, review the decision and either (i) confirm the decision, or (ii) make such other decision as the Board of Directors considers proper.

8.2.2 If the Board of Directors is required to review a decision pursuant to ~~Section 11.7.1~~ Rule 8.2.1.~~1~~, the applicant and the Corporation shall be entitled to be heard at a hearing

conducted in accordance with the rules of procedure adopted by the Corporation in respect of such hearings including the right to:

(a) receive a summary of the facts and evidence to be relied on by the applicant and the Corporation, as the case may be; and

(b) appear on reasonable notice, with counsel or agent, to call evidence and cross-examine witnesses in order to show cause why (i) in the case of a decision referred to in Rule 8.2.1~~.1 Section 11.7.1~~(a) or (b), the application should not be subject to terms and conditions or should not be refused, or (ii) in the case of a decision referred to in ~~Section~~ Rule 8.2.1~~11.7.1~~ (c) and (d), the period of time for reapplying or the variation of terms and conditions should not be imposed.

8.2.3 To the extent not otherwise specified in this ~~Section 11~~Rule 8.2 and Section 3.5 of General By-law No.1, the procedures under ~~Section 20~~ Rule 7 shall be applicable to a hearing under ~~Section~~ Rule ~~11.7.1~~8.2.1~~.1~~, mutatis mutandis.

8.3 Resignations

A Member wishing to resign shall address a letter of resignation to the Board of Directors in care of the Secretary.

8.3.1 Letter of Resignation

A Member which tenders its resignation shall in its letter of resignation state its reasons for resigning and shall file with the Corporation either:

8.3.1.1 a balance sheet of the Member reported upon by the Member's auditor without qualification as of such date as the Corporation may require which balance sheet shall indicate that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or

8.3.1.2 a report from the Member's auditor without qualification that in his opinion the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any;

and a report from the Member's auditor that the Member is in compliance with the ~~By-laws and~~ Rules with respect to the holding of client cash, securities and other property. If the financial information required by Rule 8.3.1.1~~Section 13.2.1~~ or 8.3.1.2~~13.2.2~~ above is not filed with the letter of resignation the Member shall indicate in the letter of resignation the date by which such financial information shall be filed.

8.3.2 Notice of Letter of Resignation

Notice of such letter of resignation shall forthwith be given by the Corporation to the Board of Directors, the ~~applicable Regional Council, all other~~ Members and the securities commissions of all of the provinces of Canada.

8.3.3 Time at Which Resignation Becomes Effective

Unless the Board of Directors, in its discretion otherwise declares, a resignation shall take effect as of the close of business (5:00 p.m. head office local time) on the date the Board of Directors (by its Chair, a Vice-Chair or the President) receives confirmation from the Corporation that, in its opinion, the reports of the Member's auditor pursuant to ~~Section 13~~Rule 8.3.1~~.2~~ are in order and if, to the knowledge of the Corporation after due enquiry, the Member is not indebted to the Corporation and no complaint against the Member or any investigation of the affairs of the Member by the Corporation is pending.

8.3.4 Notice that Resignation Effective

When the resignation of a Member becomes effective the Corporation shall so advise the Member resigning and all other Members, the Board of Directors, the securities commissions of all of the provinces of Canada and such other persons or bodies as the Board of Directors may direct.

8.4 Ownership

No Member shall permit an investor, alone or together with its associates and affiliates, to own:

(a) a significant equity interest in the Member; or

(b) special warrants or any other securities that are convertible or exchangeable at any time in the future, into a significant equity interest in the Member;

without the prior approval of the Corporation.

For the purposes of this ~~By-law 13.9~~Rule 8.4, a significant equity interest means the holding of:

(c) voting securities carrying 20 per cent or more of the votes carried by all voting securities of the Member or of a holding company of a Member;

(d) 20 per cent or more of the outstanding participating securities of the Member or of a holding company of a Member; or

(e) an interest of 20 per cent or more of the total equity in the Member.

Notwithstanding the foregoing, the legal representatives of a deceased person who had been approved by the Corporation as the owner of a significant equity interest may continue as a registered holder or to hold such interest for such period as the Corporation may permit.

8.5 Annual Fee

8.5.1 Calculation of Annual Fee

The Annual Fee for each Member shall be such amount, not less than $3,000 for Members designated as being in Level 1, 2 or 3 under Rule 3.1.1, and not less than $10,000 for Members designated as being in Level 4, determined in accordance with a formula which is based upon the assets under administration of the business of the Member. The Board of Directors in its discretion shall from time to time prescribe such formula and the basis on which the assets under administration of a business are to be determined.

8.5.2 Re-determination of Annual Fee

The Board of Directors may from time to time re-determine the Annual Fee to be payable by any Member. Before any such determination or re-determination is made, the Board of Directors shall obtain, but shall not be obliged to act upon, the recommendation of the Corporation.

8.5.3 Timing of Payment

The Annual Fee shall be paid in quarterly instalments (on the 15th day of July, October, January and April in each year) by each Member beginning not later than the first quarter after admission to Membership of such Member and any additional or redetermined Annual Fee shall be paid in its entirety on or before July 31 in each year.

8.5.4 Exemption from Payment

Notwithstanding the foregoing, in the event that:

8.5.4.1 an applicant for Membership has acquired the whole or a substantial part of the business and assets of a Member or Members in good standing whose Annual Fee for the then current fiscal year has been paid in full and who is or are resigning from Membership concurrently with the admission of the applicant to Membership; and

8.5.4.2 at least a majority in number of the partners of the applicant, in the case of a firm, or at least a majority in number of the directors and at least a majority in number of the officers of the applicant, in the case of a corporation, are partners, or directors and officers, as the case may be, of the retiring Member or Members;

then the applicant, if the Board of Directors so approves, shall be exempted from payment of the Annual Fee for the then current fiscal year.

8.6 Other Fees

8.6.1 Power to Make Assessment

Notwithstanding ~~Section 14~~ Rule 8.5, the Board of Directors shall have power to make an assessment in any fiscal year upon each Member on account of:

8.6.1.1 any extraordinary costs and expenses of the Corporation incurred in connection with the review and/or approval of any reorganization, takeover or other substantial change in the business, structure or affairs of a Member;

8.6.1.2 fees levied by the Corporation in connection with:

(a) exemption application filings or any other such filing fees which the Board of Directors in its discretion may determine from time to time;

(b) a Member changing its name from that which is shown on the most recent Membership List; or

(c) an application for Membership under ~~Section 10~~ Section 3.5 of General By-law No. 1; or

8.6.1.3 assessments or levies made by any customer or investor protection or compensation fund or plan in respect of which Members of the Corporation are required to participate.

8.6.1.4 assessments or levies in respect of Members of the Corporation made by the Ombudservice approved by the Board of Directors.

8.6.2 Timing of Payment

Each Member shall pay the amount so assessed upon it within thirty days after receiving written notification thereof from the Corporation.

9 RULE 100 – NEW REGISTRANT TRAINING AND SUPERVISION

Introduction

This ~~Policy~~ Rule provides guidance on how to comply with ~~MFDA~~ Rule 1.2.4 which requires all Members to develop and document a training and supervision program for their newly-registered salespersons. With respect to supervision, this ~~Policy~~ Rule sets out standards for new registrants that are in addition to the supervision requirements set out in ~~MFDA Policy~~ Rule 200 entitled "Minimum Standards for Account Supervision", that apply to all salespersons.

Training Program

~~MFDA~~ Rule 1.2.4 requires all newly-registered salespersons to complete a training program within 90 days of being registered with the relevant provincial securities commission.

A Member's training program should cover, at a minimum, the following topics:

General Knowledge: provide an overview of the Member and the industry and cover the salesperson's role, including the range of permitted activities under the salesperson's license.

Product Knowledge: provide a detailed orientation of the product lines offered by the Member.

Advising the Client: review the practical skills required to obtain and interpret know-your-client information to ensure "suitability" obligations have been met and appropriate asset allocation is achieved for clients.

Administration: provide an understanding of internal systems and technology, processes and controls and record keeping.

Sales Process: review client communications, including sales skills and marketing. Review disclosure requirements, transaction documentation requirements, compensation policies and approval processes.

Ethics and Standards of Conduct: provide an understanding of acceptable and non-acceptable business practices, review compliance policies, procedures and regulatory requirements, including sales practice procedures required under securities legislation, including National Instrument 81-105.

For salespersons transferring from one Member to another, it will be incumbent upon the receiving Member to ensure that the training program was completed with the prior Member.

Supervision Policy

Rule 1.2.4 requires that all newly registered salespersons be subject to concurrent supervision by the Member for a period of 6 months, commencing on the date of initial registration. Such supervision should include at a minimum:

The first 90-day period:

(a) all new accounts must be pre-approved by the Branch Manager prior to any trade being processed in the account;

(b) all trading activity must be reviewed and signed off by the Branch Manager no later than one business day following the trade date; and

(c) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

The subsequent 90-day period:

(a) all new accounts must be pre-approved by the Branch Manager prior to or shortly after (within 1 business day) any trade being processed in the account;

(b) each month, the Branch Manager must review the greater of:

(i) 5 of the client files that were handled by the salesperson in the preceding one month, and

(ii) 10% of such client files,

provided that if the number of such client files is less than 5, then the Branch Manager must review the actual number of such client files;

(c) on a daily basis, the Branch Manager must review the greater of:

(i) 5 of the trades conducted by the salesperson, and

(ii) 10% of such trades,

provided that if the number of such trades is less than 5, then the Branch Manager must review the actual number of such trades, (high-risk trades, are to be given particular attention); and

(d) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

In reviewing client files, the Branch Manager should ensure that: the proper documentation is contained in the files, including a New Account Application Form; all information is complete, such as the know-your-client information; and look for any unusual information, such as signed blank forms. If the New Account Application Form does not include know-your-client information, this must be documented on a separate form.

All supervisory activities with regard to newly-registered salespersons should be documented and kept on file at the branch location. Refer to the report attached to this ~~Policy~~ Rule which is to be completed by the relevant supervisor at the end of the training and supervision program. Further, any compliance issues that required action on the part of the Branch Manager or other compliance staff must be documented and kept on file.

It is expected that when a salesperson is unsuccessful in meeting a Member's expectations, the supervision and training period will be extended accordingly until such time as the Member is satisfied that the salesperson no longer needs to be subject to internal supervision. Any extensions should be documented accordingly.

CONFIRMATION OF COMPLETION OF NEW REGISTRANT TRAINING AND SUPERVISION PROGRAM

I (*Branch Manager*) hereby certify that I have supervised_____ (*Salesperson's Name*) from the period _____ (*Start Date*) to _____(*End Date*) in accordance with the requirements in ~~MFDA~~ Rule 1.2.4 and the ~~MFDA~~ New Registrant Training and Supervision ~~Policy~~ Rule and confirm that the following information is true and correct to the best of my knowledge:

1. The salesperson designated above has completed the firm's training program within 90 days of being registered with the applicable provincial securities commission.

2. I (or an alternate) have approved all new accounts opened by the above salesperson prior to a first trade in such accounts within his/her first 90 days of registration.

3. I (or an alternate) have reviewed and approved all trading activity by the salesperson within his/her first 90 days of registration.

4. I have reviewed all leveraged trades executed through the above salesperson where leveraging was recommended by the above salesperson prior to completion of the transaction.

5. For each month for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's client files and (ii) 10 percent of the salesperson's client files; or if the number of the salesperson's client files is less than 5, I have reviewed the actual number of such client files.

6. On a daily basis for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's trades and (ii) 10 percent of the salesperson's trades; or if the number of the salesperson's trades is less than 5, I have reviewed the actual number of the salesperson's trades.

7. Any client complaints concerning the above salesperson have been reviewed and discussed with the above salesperson and written documentation has been maintained in the file for any compliance issues that required action.

   IF ITEM 7 IS APPLICABLE, COMPLETE ITEM 8 BY CROSSING OUT THE PARAGRAPH THAT DOES NOT APPLY:

8. (a) As a result of the complaints received, the above salesperson's supervisory period has been extended by months; or

   (b) The complaints were resolved to my satisfaction and it was not necessary to extend the above salesperson's supervisory period.

   Date : _____

   Signature of Branch Manager: _____

   Name of Branch Manager: _____

   Name of Member: _____

10 RULE 200 - MINIMUM STANDARDS FOR ACCOUNT SUPERVISION

Introduction

This ~~Policy~~ Rule establishes minimum industry standards for account supervision. These standards represent the minimum requirements necessary to ensure that a Member has procedures in place to properly supervise account activity. This ~~Policy~~Rule does not:

(a) relieve Members from complying with specific ~~MFDA By-laws and~~ , Rules ~~and Policies~~ and securities legislation applicable to particular trades or accounts; or

(b) preclude Members from establishing a higher standard of supervision, and in certain situations a higher standard may be necessary to ensure proper supervision.

To ensure that a Member has met all applicable standards, Members are required to know and comply with ~~MFDA By-laws~~ , ~~and~~ Rules ~~and Policies~~ as well as applicable securities legislation which may apply in any given circumstance. The following principles have been used to develop these minimum standards:

(a) The term "review" in this ~~Policy~~ Rule has been used to mean a preliminary screening designed to detect items for further investigation or an examination of unusual trading activity or both. It does not mean that every trade must be reviewed. The reviewer must use reasonable judgement in selecting the items for further investigation.

(b) It has been assumed that Members have or will provide the necessary resources and qualified supervisors to meet these standards.

(c) Initial compliance with the know-your-client ("KYC") rule and the requirement to make a suitability determination in respect of investment products are primarily the responsibility of the registered salesperson. The supervisory standards in this ~~Policy~~ Rule relating to KYC and suitability determinations are intended to provide supervisors with a checklist against which to monitor the handling of these responsibilities by the registered salesperson.

Members that seek to adopt policies and procedures relating to branch and head office supervision or the allocation of supervisory activities that differ from those contained in this ~~Policy~~ Rule must demonstrate that all of the principles and objectives of the minimum standards set out in this ~~Policy~~ Rule have been properly satisfied. Further, any such alternative policies and procedures must adequately address the risk management issues of the Member and must be pre-approved by ~~MFDA staff~~ staff of the Corporation before implementation.

Supervisory staff has a duty to ensure compliance with Member policies and procedures and ~~MFDA~~ regulatory requirements, which includes the general duty to effectively supervise and to ensure that appropriate action is taken when a concern is identified. Such

action would depend on the circumstances of each case and may include following up with the registered salesperson and/or the client. Supervisory staff must also maintain records of the issues identified, action taken and resolution achieved.

I. ESTABLISHING AND MAINTAINING PROCEDURES

Effective self-regulation begins with the Member establishing and maintaining a supervisory environment which both fosters the business objectives of the Member and maintains the self-regulatory process. To that end a Member must establish and maintain procedures which are supervised by qualified individuals. A major aspect of self-regulation is the ongoing education of staff in all areas of sales compliance.

Establishing Procedures

1. Members must appoint designated individuals who have the necessary knowledge of industry regulations and Member policies to properly perform the duties.

2. Written policies must be established to document supervision requirements.

3. Written instructions must be supplied to all supervisors and alternates to advise them on what is expected of them.

4. All policies established or amended should have senior management approval.

Maintaining Procedures

1. Evidence of supervisory reviews must be maintained. Evidence of the review, such as inquiries made, replies received, date of completion etc. must be maintained for seven years and on-site for one year.

2. An on-going review of sales compliance procedures and practices must be undertaken both at head office and at branch offices.

Delegation of Procedures

1. Tasks and procedures may be delegated to a knowledgeable and qualified individual but not responsibility.

2. The Member must advise supervisors of those specific functions which cannot be delegated, such as approval of new accounts.

3. The supervisor delegating the task must ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.

4. Those who are delegated tasks must have the qualifications and required proficiency to perform the tasks and should be advised in writing of their duties. The general expectation is that tasks be delegated only to individuals with the same proficiency as the delegating supervisor. In certain limited circumstances, it may

be acceptable to delegate specialized tasks to an individual that has not satisfied the proficiency requirements provided that the individual has equivalent training, education or experience related to the function being performed. The Member must consider the responsibilities and functions to be performed in relation to the delegated tasks and make a determination as to appropriate equivalent qualifications and proficiency. The Member must be able to demonstrate to ~~MFDA staff~~ staff of the Corporation that the equivalency standard has been met. Tasks related to trade supervision can only be delegated to individuals that possess the proficiency of a branch manager or compliance officer.

Education

1. The Member's current policies and procedures manual must be made available to all sales and supervisory staff.

2. Introductory training and continuing education should be provided for all registered salespersons. For training and enhanced supervisory requirements for newly registered salespersons, please refer to the ~~MFDA Policy~~Rule 100 entitled "New Registrant Training and Supervision ~~Policy~~Rule."

3. Relevant information contained in compliance-related ~~MFDA~~ Member Regulation Notices and Bulletins and compliance-related notices from other applicable regulatory bodies must be communicated to registered salespersons and employees. Procedures relating to the method and timing of distribution of compliance-related information must be clearly detailed in the Member's written procedures. Members should ensure that they maintain evidence of compliance with such procedures.

II. OPENING NEW ACCOUNTS

To comply with the KYC and suitability determination requirements set out in ~~MFDA~~ Rule 2.2, each Member must establish procedures to maintain accurate and complete information on each client. The first step towards compliance with this rule is completing proper documentation when opening new accounts. Accurate completion of the documentation when opening a new account allows both the registered salesperson and the supervisory staff to conduct the necessary reviews to ensure that recommendations made for any account are suitable for the client and put the client's interests first. Maintaining accurate and current documentation will allow the registered salesperson and the supervisory staff to ensure that requirements under Rule 2.2 are met.

Documentation of Client Account Information

The information set out under paragraphs 3 and 4, below, represents a list of minimum requirements. The Member may require clients to provide any additional information that it considers relevant in order to comply with Rule 2.2.1.

1. A New Account Application Form ("NAAF") must be completed for each new account.

2. A complete set of documentation relating to each client's account must be maintained by the Member. Registered salespersons must have access to information and documentation relating to the client's account as required to service the account. In the case of a Level 1 Introducing Dealer and corresponding Carrying Dealer, both Members must maintain a copy of each client's NAAF.

3. For each account of a client that is a natural person, the Member must obtain, at a minimum, the following information:

   (a) name;

   (b) type of account;

   (c) residential address and contact information;

   (d) date of birth;

   (e) employment information;

   (f) number of dependants;

   (g) other persons with trading authorization on the account;

   (h) other persons with a financial interest in the account;

   (i) investment knowledge;

   (j) risk profile;

   (k) investment needs and objectives;

   (l) investment time horizon;

   (m) financial circumstances, including income and net worth;

   (n) for non-registered leveraged accounts, details of the net worth calculation, specifying liquid assets plus any other additional assets less total liabilities;

   (o) information required by other laws and regulations applicable to the Member's business as amended from time to time including information required for relevant tax reporting; information required for compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* and any authorization necessary to provide information to the ~~MFDA~~ Corporation under applicable privacy legislation.

   In the case of accounts jointly owned by two or more persons, information required under paragraph 3, subsections (a), (c), (d), (e), (f), and (i) must be collected with respect to each owner. Income and net worth may be collected for each owner or on a combined basis as long as it is clear which method has been used.

4. For each account of a client that is a corporation, trust or other type of legal entity, the Member must obtain information sufficient to allow for the operation of the account and sufficient to determine the essential facts relative to the client, which would include, at a minimum, the following information:

   (a) legal name;

   (b) head office address and contact information;

   (c) type of legal entity (i.e. corporation, trust, etc.);

   (d) form and details regarding the organization of the legal entity (i.e. articles of incorporation, trust deed, or other constating documents);

   (e) nature of business;

   (f) persons authorized to provide instructions on the account and details of any restrictions on their authority;

   (g) investment knowledge of the persons to provide instructions on the account;

   (h) risk profile;

   (i) investment needs and objectives;

   (j) investment time horizon;

   (k) financial circumstances, including income and net worth;

   (l) information required by other laws and regulations applicable to the Member's business as amended from time to time including information required for relevant tax reporting; information required for compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* and any authorization necessary to provide information to the ~~MFDA~~ Corporation under applicable privacy legislation.

5. For supervisory purposes, the following account types must be readily identifiable: registered accounts; leveraged accounts; and accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client.

6. If the NAAF does not include KYC information, this must be documented on a separate KYC form(s). Such form(s) must be signed by the client and dated. A copy of the completed NAAF and KYC form, if separate from the NAAF, must be provided to the client.

7. The Member must have internal controls and policies and procedures in place with respect to the entry of KYC information on their back office systems. Such controls should provide an effective means to detect and prevent inconsistencies between the KYC information used for account supervision with that provided by the client.

8. Except as noted in the following paragraph, NAAFs must be prepared and completed for all new clients prior to the opening of new client accounts. The new account or KYC information must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the initial transaction date. Records of all such approvals must be maintained in accordance with Rule 5.

9. Notwithstanding the preceding paragraph, NAAFs for clients of a registered salesperson transferring to the Member must be prepared and completed within a reasonable time (but in any event no later than the time of the first trade). The new accounts or KYC information for clients of the transferring salesperson must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the date that the NAAF is completed. Records of all such approvals must be maintained in accordance with Rule 5.

10. In the event that a NAAF is not completed prior to or within a reasonable time after opening an account, as required by this ~~Policy~~Rule, the Member must have policies and procedures to restrict transactions on such accounts to liquidating trades until a fully completed NAAF is received.

Changes to KYC Information

1. The registered salesperson or Member must update the KYC information whenever they become aware of a material change in client information as defined in Rule 2.2.4(a), and must review KYC information with the client at a frequency of no less than once every 36 months.

2. On account opening, the Member should advise the client to promptly notify the Member of any material changes in the client information, as defined in Rule 2.2.4(a), previously provided to the Member and provide examples of the types of information that should be regularly updated.

3. In accordance with Rule 2.2.4(e), Members must also, on an annual basis, request in writing that clients notify them if there has been any material change in client information, as defined in Rule 2.2.4(a), previously provided, or if the client's circumstances have materially changed.

4. Access to amend KYC information must be controlled and instructions to make any such amendments must be properly documented.

5. A client signature, which may include an electronic signature, or other internal controls sufficient to authenticate the client’s identity and verify the client’s

authorization must be used to evidence any change in client name, client address or client banking information.

6. Material changes to client information, as defined in Rule 2.2.4(a), may be evidenced by a client signature, which may include an electronic signature or, alternatively, such changes may be evidenced by maintaining notes in the client file detailing the client's instructions to change the information and verified by providing written confirmation to the client with details of the instructions and providing an opportunity for the client to make corrections to any changes that have been made.

7. All material changes in client information, as defined in Rule 2.2.4(a), must be approved by the individual designated as responsible for the opening of new accounts under Rule 2.2.3 no later than one business day after the date on which notice of the change in information is received from the client. When approving material changes, branch managers should be reviewing the previous KYC information to assess whether the change appears reasonable. Branch managers should be aware of situations where material changes may have been made to justify trades or leveraging that would not be suitable, or put the client's interests first, as required under Rule 2.2.6(1) (hereafter referred to as "unsuitable"). For example, branch managers should investigate further material changes that accompany trades in higher risk investment products or leveraging or changes made within a short period of time (for example 6 months). Records of all such approvals must be maintained in accordance with Rule 5.

8. Where any material changes have been made to the information contained in the NAAF or KYC form(s), the client must promptly be provided with a document or documents specifying the current risk profile, investment needs and objectives, investment time horizon, income and net worth that applies to the client's account.

9. The last date upon which the KYC information has been updated or confirmed by the client must be indicated in the client's file and on the Member's back office system.

Pending/Supporting Documents

1. Members must have procedures in place to ensure supporting documents are received within a reasonable period of time of opening the account.

2. Supporting documentation that is not received or is incomplete must be noted, filed in a pending documentation file and reviewed on a periodic basis.

3. Failure to obtain required documentation within 25 days of the opening of the account must result in positive actions being taken.

Client Communications

1. All hold mail must be authorized by the client in writing and be controlled, reviewed on a regular basis and maintained by the responsible supervisor. Hold mail should never be permitted to occur over a prolonged period of time (i.e. in excess of 6 months).

2. Returned mail is to be promptly investigated and controlled.

III. ASSESSING SUITABILITY OF INVESTMENTS AND BORROWING TO INVEST ("LEVERAGING") STRATEGIES

General

1. Members must establish and maintain policies and procedures with respect to their obligation to make a suitability determination which satisfies the criteria set out under Rule 2.2.6(1)(a), and, in accordance with requirements under Rule 2.2.6(1)(b), puts the client's interest first. The policies and procedures must include guidance and criteria for registered salespersons to ensure that recommendations made and orders accepted (with the exception of unsolicited orders accepted pursuant to Rule 2.2.6(2.1)) are suitable for the client and put the client's interest first. The policies and procedures must also include criteria for supervisory staff at the branch and head office to review a suitability determination considering all investment products in each client's account and the client's use of borrowing to invest ("leverage").

2. The criteria for selecting trades and leverage strategies for review, the inquiry and resolution process, supervisory documentation requirements and the escalation and disciplinary process must be documented and clearly communicated to all registered salespersons and all relevant employees. Registered salespersons must be advised of the criteria used in assessing a suitability determination, actions the Member will take when a trade or leverage strategy has been flagged for review and appropriate options for resolution.

Leverage Suitability

1. The minimum criteria listed below are intended to prompt a supervisory review and investigation by the Member of a leverage strategy. While Members must consider all the criteria noted below, the triggering of one or more of the criteria may not necessarily mean that the leverage strategy is unsuitable. The Member's supervisory review and investigation must be able to demonstrate that use of the leverage strategy was suitable for the client, and put the client's interests first.

   Where the leverage strategy is approved, the analysis and rationale must be documented.

   Minimum criteria that require supervisory review and investigation include the following:

(a) investment knowledge of low or poor (or similar categories);

(b) risk profile of less than medium (or similar categories);

(c) age of 60 and above;

(d) investment time horizon of less than 5 years;

(e) total leverage amount that exceeds 30% of the client's total net worth; and

(f) total debt and lease payments that exceed 35% of the client's gross income, not including income generated from leveraged investments. Total debt payments would include all loans of any kind whether or not obtained for purpose of investment. Total lease payments would include all significant ongoing lease and rental payments such as automobile leases and rental payments on residential property.

2. With respect to a recommendation for a client to use a leveraging strategy, Members and registered salespersons may not obtain a waiver from the client to exempt the Member and the registered salesperson from their obligations to ensure that such a recommendation is suitable for the client, and puts the client's interest first.

3. The Member must review and maintain documents to facilitate proper supervision. This would include:

(a) Lending documents and details of lending arrangements – The Member or registered salesperson must either maintain copies of the lending documents or make sufficient inquiries to obtain details of the loan, including interest rate, terms for repayment, and the outstanding loan value. Where the Member or registered salesperson assists the client in completing the loan application, the Member must maintain copies of lending documents in the file, including copies of the loan application.

Where the client arranges their own financing, it may be difficult in some cases for the Member or registered salesperson to obtain details of the lending arrangement from the client. Where a client is unwilling to provide details of the lending arrangement, the Member and registered salesperson must advise the client that they cannot make a suitability determination without additional information and maintain evidence of such advice.

(b) NAAF and updates to KYC information – Supervisory staff must compare the client's KYC information with all other information received in respect of the loan and follow up on any material inconsistencies, which may require obtaining additional supporting documentation from the client.

(c) Numerical details in support of income and net worth calculations required by sections 1(e) and 1(f).

(d) Trade documents, notes supporting client instructions or authorizations and notes supporting the rationale for recommending a leverage strategy to the client.

Registered Salespersons

1. All recommendations made and orders accepted by registered salespersons (with the exception of unsolicited orders accepted pursuant to Rule 2.2.6(2.1)) must be suitable and put the client's interest first in accordance with Rule 2.2.6(1). Where the registered salesperson recommends a leverage strategy to a client or where the registered salesperson is aware that a transaction involves the use of borrowed funds, the registered salesperson must ensure that the client's account is identified as "leveraged" on the Member's system in accordance with the Member's policies and procedures.

2. Registered salespersons must make a suitability determination considering all investment products in a client account whenever:

   – the Member or registered salesperson becomes aware of a change in an investment product in the client's account that may result in the investment product or account not being suitable or putting the client's interest first;

   – the client transfers to the Member or transfers assets into an account at the Member;

   – the Member or registered salesperson becomes aware of a material change in the client's KYC information;

   – the Member or registered salesperson has reviewed the client's KYC information in accordance with the review requirements set out under Part II (Opening New Accounts), Changes to KYC Information, paragraph 1; or

   – the client account has been re-assigned to the registered salesperson from another registrant at the Member.

Where there is a transfer of assets into an account at the Member or where the client account is re-assigned to the registered salesperson from another registrant at the Member, the suitability determination must be performed within a reasonable time, but in any event no later than the time of the next trade. "Reasonable time" in a particular instance will depend on the circumstances surrounding the event that gives rise to the requirement to perform the suitability determination. For example, with respect to client transfers, the volume of accounts to be reviewed may be a relevant factor in determining reasonable time.

Where the Member or registered salesperson becomes aware of a material change in the client's KYC information, the suitability determination must be performed no later than one business day after the date on which the notice of change in information is received from the client.

3. Registered salespersons must also make a suitability determination with respect to a leverage strategy having regard to the client's investment knowledge, risk profile, age, investment time horizon, income, net worth and investment needs and objectives whenever:

   – the Member or registered salesperson becomes aware of a change in an investment product in the client's account, which was purchased using borrowed funds, that may result in the investment product or account not being suitable or putting the client's interest first;

   – the client transfers assets purchased using borrowed funds into an account at the Member;

   – the Member or registered salesperson becomes aware of a material change in the client's KYC information;

   – the Member or registered salesperson has reviewed the client's KYC information in accordance with the review requirements set out under Part II (Opening New Accounts), Changes to KYC Information, paragraph 1; or

   – the client account has been re-assigned to the registered salesperson from another registrant at the Member.

   Where there is a transfer of assets purchased using borrowed funds into an account at the Member or where the client account is re-assigned to the registered salesperson from another registrant at the Member, the suitability determination must be performed in a timely manner as soon as possible after the transfer in accordance with the circumstances, but in any event no later than the time of the next trade.

   Where the Member or registered salesperson becomes aware of a material change in the client's KYC information, the suitability determination must be performed no later than one business day after the date on which the notice of change in information is received from the client.

4. Should a registered salesperson identify unsuitable investment products in a client's account or an unsuitable leverage strategy, the registered salesperson must advise the client and take appropriate steps to determine if there has been any change to client circumstances that would warrant altering the KYC information. Where there has not been a change in client circumstances, it is inappropriate to alter the KYC information in order to match the investment products in the client's account or the leverage strategy. If there is no change to the KYC information, or if investment products in the account or the leverage strategy continue to be unsuitable after the KYC information has been amended, the registered salesperson should discuss any inconsistencies with the client and provide recommendations that would satisfy requirements under Rule 2.2.6(1)(a) and (b). Transactions in the

account must only be made in accordance with client instructions and any recommendations made must be properly recorded.

5. Registered salespersons must maintain evidence of completion of all suitability determinations performed and any follow up action taken.

IV. BRANCH OFFICE SUPERVISION

1. An on-site branch manager is in the best position to know the registered salespersons in the office, know or meet many of the clients, understand local conditions and needs, facilitate business through the timely approval of new accounts and respond immediately to questions or problems. In accordance with Rule 2.5.5(c), a Member may designate a branch manager for a branch office who is not normally on-site. In determining whether an on-site branch manager is necessary at a branch, a number of factors, including the following, should be considered:

   - the specific activities at the branch;
   - complaint history;
   - number of Approved Persons at the branch;
   - experience of Approved Persons at the branch;
   - trade volume/commissions earned;
   - results of previous ~~Policy No. 5~~Rule 500 branch reviews;
   - ~~MFDA~~ compliance examination findings;
   - daily trade supervision issues;
   - supervisory tools used at the branch (manual or automated);
   - the nature of outside activities carried on at the branch; and
   - the availability of a branch manager or branch managers in nearby locations.

2. Where a branch or sub-branch does not have an on-site branch manager, the Member must assign an off-site branch manager to the location. The Member's policies and procedures must include provision for periodic visits to the branch and sub-branch by the branch manager, or other Approved Persons at the Member who are delegated supervisory responsibility, as necessary to ensure that business is being conducted properly at the location. Members must maintain records of the visits as well as issues identified and follow-up action taken.

3. Members must maintain an internal record of branch managers and the branches and sub-branches they are responsible for supervising.

Daily Reviews

1. All new account applications and updates to client information must be reviewed and approved in accordance with this ~~Policy~~Rule.

2. The branch manager (or alternate) must review the previous day's trading for unsuitable trades, leveraging and any other unusual trading activity using any convenient means. This review must include, at a minimum, all:

   – initial trades;

   – trades in exempt securities (excluding guaranteed investment certificates);

   – leveraging for accounts other than registered retirement savings plans or registered education savings plans;

   – trades in accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client;

   – redemptions over $10,000;

   – trades over $2,500 in moderate-high or high risk investment products;

   – trades over $5,000 in moderate or medium risk investment products; and

   – trades over $10,000 in all other investment products.

   For the purposes of this section, “trades” does not include redemptions except where specifically referenced.

3. When reviewing redemptions, branch managers should:

   – Review the suitability determination in respect of the redemption, having regard to the composition of the remaining portfolio;

   – assess the impact and appropriateness of any redemption charges;

   – consider possible outside activity where money may be leaving the Member for reinvestment into other potentially inappropriate or unauthorized investments; and

   – consider potential churning, including situations where redemption proceeds are being held on a temporary basis pending reinvestment.

4. The branch manager (or alternate) is responsible for following up on unusual trades identified by head office.

Other Reviews

1. The branch manager must review a suitability determination considering investment products in each client account and the client's use of leverage, if any, where the Member becomes aware of a material change in the client's KYC information that results in a significant decrease in the client's risk profile, investment time horizon, income or net worth or more conservative investment needs and objectives. The review of a suitability determination must be performed no later than one business day after the date on which notice of the change in information is received from the client.

2. In addition to transactional activity, branch managers must also keep themselves informed as to other client-related compliance matters such as complaints.

V. HEAD OFFICE SUPERVISION

A two-tier structure is required to adequately supervise client account activity. While the head office or regional area level of supervision by its nature cannot be in the same depth as branch level supervision, it should cover the same elements. Head office review should be focused on unusual activity or reviews that cannot be carried out at the branch level. Head office reviews must include procedures to effectively detect unsuitable investments and excessive trading in client accounts.

Daily Reviews

1. In addition to the trading review criteria for branch managers, head office must conduct daily reviews of account activity which must include, at a minimum, all:

   – redemptions over $50,000;

   – trades over $5,000 in exempt securities (excluding guaranteed investment certificates), moderate-high or high risk investment products, or leveraging for accounts other than registered retirement savings plans or registered education savings plans;

   – trades over $10,000 in moderate or medium risk investment products; and

   – trades over $50,000 in all other investment products (excluding money market funds).

   For the purposes of this section, "trades" does not include redemptions except where specifically referenced.

2. There must be closer supervision of trading by registered salespersons who have had a history of questionable conduct. Questionable conduct may include trading

activity that frequently raises questions in account reviews, frequent or serious complaints, regulatory investigations or failure to take remedial action on account problems identified.

3. Daily reviews should be completed within one business day unless precluded by unusual circumstances.

4. Daily reviews should be conducted of client accounts of producing branch managers.

Other Reviews

1. The Member must, on a sample basis, review a suitability determination, where clients have transferred assets into an account. The Member must have policies and procedures regarding sample size and selection, which should be based on the risk level associated with the account, focusing on accounts that hold higher risk investment products, exempt securities or investment products not sold by the Member, accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client and accounts employing a leverage strategy other than registered retirement savings plans and registered education savings plans. The Member's reviews must be completed within a reasonable time, but in any event no later than the time of the next trade.

2. Members must also review a suitability determination in all cases where the client transfers assets purchased using borrowed funds into an account at the Member. Given the high risk nature of leveraging strategies, the Member's reviews must be completed in a timely manner as soon as possible after the transfer in accordance with the circumstances, but in any event no later than the time of the next trade.

VI. IDENTIFICATION OF TRENDS IN TRADING ACTIVITY

1. Members must establish policies and procedures to identify trends or patterns that may be of concern including:

   - excessive trading or switching between funds indicating possible unauthorized trading, unsuitable trades, or possible issues of churning (for example, redemptions made within 3 months of a purchase, DSC purchases made within 3 months of a DSC redemption or accounts where there are more than 5 trades per month);

   - excessive switches between no load funds and deferred sales charge or front load funds;

   - excessive switches between deferred sales charge funds and front load funds; and

   - excessive switches where a switch fee is charged.

2. Head office supervisory review procedures must include, at a minimum, the following criteria:

   - a review of all accounts generating commissions greater than $1,500 within the month;
   - a quarterly review of reports on assets under administration ("AUA") comparing current AUA to AUA at the same time the prior year;
   - a quarterly review of commission reports for the previous 12 month period comparing commissions received in the current year to commissions received for the same period in the prior year.

   Significant increases in commissions or AUA beyond those caused by market fluctuations may indicate issues with churning or leveraging strategies. Significant decreases may indicate potential inappropriate outside activity.

3. Reviews should be completed within 30 days of the last day of the period being reviewed unless precluded by unusual circumstances.

11 RULE 300 - COMPLAINT HANDLING, SUPERVISORY INVESTIGATIONS AND INTERNAL DISCIPLINE

I. Complaints

1. Introduction

~~MFDA~~ Rule 2.11 requires Members to establish and implement written policies and procedures for dealing with client complaints that ensure that such complaints are dealt with promptly and fairly. This ~~Policy~~ Rule establishes minimum standards for the development and implementation of those procedures.

Compliance with the requirements of ~~MFDA~~ Rule 2.11 and this ~~Policy~~ Rule must be supervised and monitored by the Member and its personnel in accordance with ~~MFDA~~ Rule 2.5.

2. Definition

A "complaint" shall be deemed to include any written or verbal statement of grievance, including electronic communications from a client, former client, or any person who is acting on behalf of a client and has written authorization to so act, or of a prospective client who has dealt with a Member or Approved Person, alleging a grievance involving the Member, Approved Person of the Member or former Approved Person of the Member, if the grievance involves matters that occurred while the Approved Person was an Approved Person of the Member.

3. Duty to Assess All Complaints

Members have a duty to engage in an adequate and reasonable assessment of all complaints.

All complaints are subject to the complaint handling requirements set out in Part I of this ~~Policy~~Rule. Certain complaints are subject to additional complaint handling requirements as set out in Part II of this ~~Policy~~Rule. Complaints must be assessed to determine whether, in the reasonable professional judgment of the Member's supervisory staff handling the complaint, they should be treated in accordance with the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~Rule.

All complaints, including complaints from non-clients in respect of their own affairs, in any way relating to the following must be dealt with in accordance with the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~Rule:

- a breach of client confidentiality;
- unsuitable investments or leveraging (except for non-clients);
- theft, fraud, misappropriation, forgery, misrepresentation, unauthorized trading;

- engaging in securities related business outside of the Member;
- engaging in an undeclared occupation outside the Member;
- personal financial dealings with a client, money laundering, market manipulation or insider trading.

In determining whether any other complaints not relating to the matters set out above should be subject to the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy~~ Rule supervisory staff should consider whether the complaint alleges a matter similar in nature or seriousness to those set out above, the complainant's expectation as to how the complaint should be handled and whether the complainant is alleging any financial harm. Where supervisory staff determines that a complaint does not meet any of these criteria the complaint must be handled fairly and promptly but can be concluded through an informal resolution.

4. **Minimum Requirements for Complaints Subject to Informal Resolution**

Any complaints that are subject to informal resolution must be handled fairly and responded to promptly (i.e. generally in less time than it would take for complaints subject to the Additional Complaint Handling Requirements prescribed by Part II of this ~~Policy)~~Rule). Such complaints must also be resolved in accordance with internal Member complaint handling policies and procedures that clearly describe the process to be followed in the assessment and resolution of such matters. Certain complaints subject to informal resolution must also be reported under ~~Policy~~ Rule 600.

Where a complaint subject to informal resolution is received in writing the Member must provide its substantive response in writing.

5. Member Assistance in Documenting Verbal Complaints

Members should be prepared to assist clients in documenting verbal complaints where it is apparent that such assistance is required.

6. Client Access

At the time of account opening, Members must provide to new clients a written summary of the Member's complaint handling procedures, which is clear and can easily be understood by clients. On account opening, the Member must also provide a Client Complaint Information Form ("CCIF"), as approved by ~~MFDA~~ staff, describing complaint escalation options, including complaining to the Ombudsman for Banking Services and Investments and complaining to the ~~MFDA~~ Corporation.

Members must ensure that information about their complaint handling process is made generally available to clients so that clients are informed as to how to file a complaint and to whom they should address a complaint. For example, Members who maintain a website must post their complaint handling procedures on their website.

Member procedures must provide a specific point of initial contact at head office for complaints or information about the Member's complaint handling process. This contact may be a designated person or may be a general inbox or telephone number that is continuously monitored. Members may also advise clients to address their complaints to the Approved Person servicing their account and to the Branch Manager supervising the Approved Person.

7. Fair Handling of Client Complaints

To achieve the objective of handling complaints fairly, Members' complaint handling procedures must include standards that allow for a factual investigation and an analysis of the matters specific to the complaint. Members must not have policies that allow for complaints to be dismissed without due consideration of the facts of each case. There must be a balanced approach to the gathering of facts that objectively considers the interests of the complainant, the Approved Person and the Member.

The basis of the Member's analysis must be reasonable. For example, a suitability complaint must be considered in light of the same principles that would be applied by a reasonable Member in conducting a suitability review, which would include an acknowledgement of the complainant's stated risk tolerance. It would not be reasonable for a Member to assess suitability based on a risk level presumed by the Member that is higher than that indicated by the complainant. A further example of an unreasonable analysis is where a Member dismisses a complaint due to a simple uncorroborated denial by the Approved Person notwithstanding evidence in support of the complainant.

A Member's obligation to handle complaints in accordance with this ~~Policy~~ Rule is not altered when a complainant engages legal counsel in the complaint process and where no litigation has commenced. Where litigation has been initiated by the complainant, the Member is expected to participate in the litigation process in a timely manner in accordance with the rules of procedure of the applicable jurisdiction and to refrain from acting in a way that is clearly unfair.

The Member's review of the complaint must result in the Member's substantive response to the complainant. Examples of an appropriate substantive response include a fair offer to resolve the complaint or a denial of the complaint with reasons. ~~MFDA~~ Corporation staff does not require that the complainant accept the Member's offer in order for the offer to be considered fair.

8. Prompt Handling of Client Complaints

The Member must handle the complaint and provide its substantive response within the time-period expected of a Member acting diligently in the circumstances. The time-period may vary depending on the complexity of the matter. The Member should determine its substantive response and notify the complainant in writing in most cases within three months of receipt of the complaint.

Further, staff recognizes that, if the complainant fails to co-operate during the complaint resolution process, or if the matter requires an extensive amount of fact-finding or complex

legal analysis, time-frames for the substantive response may need to be extended. In cases where a substantive response will not be provided within three months, the Member must advise the complainant as such, provide an explanation for the delay and also provide the Member's best estimate of the time required for the completion of the substantive response.

It is not required that the complainant accept the Member's substantive response. Where the Member has communicated its substantive response, the Member must continue to proactively address further communications from the complainant in a timely manner until no further action on the part of the Member is required.

9. General Complaint Handling Requirements

1. All client complaints and supervisory obligations must be handled by qualified sales supervisors/compliance staff. An individual who is the subject of a complaint must not handle the complaint unless the Member has no other supervisory staff who are qualified to handle such complaints.

2. Each Approved Person must report certain complaints and other information relevant to this ~~Policy~~ Rule to the Member as required under ~~MFDA Policy~~ Rule 600.

3. Each Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.

4. Members may use the electronic reporting system designated under ~~MFDA Policy~~ Rule 600 (the "Member Event Tracking System" or "METS") as their complaint log for those complaints reported on METS. For complaints that are not required to be reported through METS Members must have policies and procedures for the detection of frequent and repetitive complaints made with respect to the same matter which may, on a cumulative basis, indicate a serious problem.

5. Follow-up documentation for all complaints must be kept in a central location along with the consolidated log of complaints. Alternatively, where a Member has various regional head offices or branches, the Member may keep follow-up documentation at any one regional head office or branch, so long as information about the handling of the complaint is in the Member head office log and the follow-up documentation can be produced in a timely manner.

6. Where the events relating to a complaint took place in part at another Member or a member of another SRO, Members and Approved Persons must cooperate with other Members or SRO members in the sharing of information necessary to address the complaint.

10. Settlement Agreements

No Approved Person shall, without the prior written consent of the Member, enter into any settlement agreement with, pay any compensation to or make any restitution to a client.

No Member or Approved Person of such Member may impose confidentiality restrictions on clients or a requirement to withdraw a complaint with respect to the ~~MFDA~~ Corporation or a securities commission, regulatory authority, law enforcement agency, SRO, stock exchange or other trading market as part of a resolution of a dispute or otherwise.

11. Additional Complaint Handling Requirements

Each Member's procedures for handling complaints that are subject to the requirements of this section must include the following:

1. **Initial Response** – An initial response letter must be sent to the complainant within a reasonable time, and generally within 5 business days of receipt of the complaint. If a complaint can be concluded in less than 5 business days then an initial response letter is not necessary. The initial response letter must include the following information:

    - A written acknowledgment of the complaint;
    - A request to the complainant for any additional reasonable information required to resolve the complaint;
    - The name, job title and full contact information of the individual at the Member handling the complaint;
    - A statement indicating that the complainant should contact the individual at the Member handling the complaint if he/she would like to inquire about the status of the complaint;
    - A summary of the Member's internal complaint handling process, including general timelines for providing the Member's response to complaints and a statement advising clients that each province and territory has a time limit for taking legal action; and
    - A reference to an attached copy of the CCIF, and a reference to the fact that the CCIF contains information about applicable limitation periods.

2. **Substantive Response** – The substantive response letter, which Members must provide to the complainant, may be accompanied by a summary of the Member's complaint handling procedures and must include a copy of the CCIF. The substantive response letter to complainants must also include the following information:

    - An outline of the complaint;
    - The Member's substantive decision on the complaint, including reasons for the decision; and

- A reminder to the complainant that he/she has the right to consider: (i) presenting the complaint to the Ombudsman for Banking Services and Investments which will consider complaints brought to it within six months of the substantive response letter; (ii) making a complaint to the ~~MFDA~~ Corporation; (iii) litigation/civil action; or (iv) any other applicable options, such as an internal ombudservice provided by an affiliate of the Member.

III. Supervisory Investigations

A Member must monitor, through its supervisory personnel, all information that it receives regarding potential breaches of applicable requirements on the part of the Member and its current and former Approved Persons that raise the possibility of risk to the Member's clients or other investors. Applicable requirements include ~~MFDA By-laws,~~ Rules ~~and Policies~~, other applicable legal and regulatory requirements and the Member's related internal policies and procedures. This applies to information received from both internal and external sources. For example, such information may come from client complaints, be identified during the Member's routine supervisory activity, or come from other Approved Persons of the Member or individuals outside the Member who are not clients.

For purposes of clarity, where the information is received by way of a client complaint, the supervisory duty goes beyond addressing the relief requested by the complainant and extends to a consideration of general risk at the Member. The duty to deal with the supervisory aspects of the matter continues when a complainant purports to withdraw the complaint or indicates satisfaction with the result of the Member's complaint handling.

Members must take reasonable supervisory action in relation to such information, the extent of which will in part depend on the severity of the allegation and the complexity of the issues. In all cases, the Member must track such information and note trends in risk, including those related to specific Approved Persons or branches, subject matter, product types, procedures and cases, and take necessary action in response to those trends as appropriate. In some cases, it will be necessary to conduct an active supervisory investigation in relation to the information received in specific situations and the level of the investigation must be reasonable in the circumstances.

For example, where the Member identifies unsuitable investment or leveraging recommendations by one if its Approved Persons, the investigation may extend to include determining relevant matters such as the understanding of the Approved Person and applicable supervisory personnel of the Member's policies and procedures and the possibility that such conduct occurred in relation to other clients.

With regard to the type of conduct outlined in Part I, Section 3 of this ~~Policy~~Rule, other than suitability, the Member has a duty to conduct a detailed investigation in all situations where there is information from any source, written or verbal, whether from an identified source or anonymous, to raise the possibility that such conduct occurred. This duty applies to all conduct by the current or former Approved Person, whether it occurred inside or outside the Member.

The investigation must be sufficiently detailed and must include all reasonable steps to determine whether the potential activity occurred. Examples of the activities that the Member may need to take include:

(a) interviewing or otherwise communicating with individuals such as:

- the individuals of concern;
- related supervisory personnel;
- other branch staff;
- head office personnel;
- the client or other external individuals who brought the information to the Member's attention; or
- other clients who may have been affected by the activity.

(b) conducting a review at the branch or sub-branch.

(c) reviewing documentation such as:

- files of the Approved Person relating to Member business; or
- files and other documents in the Approved Person's custody or control that relate to outside business, where there is a reasonable possibility that such information is relevant to the investigation. Members have the right to require such information to meet their supervisory responsibilities and Approved Persons have an obligation to cooperate with such requests.

IV. Internal Discipline

Each Member must establish procedures to ensure that breaches of the ~~MFDA~~ By-laws~~,~~ and Rules ~~and Policies~~ are subjected to appropriate internal disciplinary measures.

V. Record Retention

Documentation associated with a Member's activity under this ~~Policy~~ Rule shall be maintained for a minimum of 7 years from the creation of the record and made available to the ~~MFDA~~ Corporation upon request.

12 RULE 400 - INTERNAL CONTROL ~~POLICY~~ RULE STATEMENTS

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 1 - GENERAL MATTERS

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time."

"Internal control" is defined as follows:

> ***"Internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. The responsibility for ensuring adequate internal control is part of management's overall responsibility for the ongoing activities of the entity." (CICA Handbook, 5200.03)***

The effectiveness of specific policies and procedures is affected by many factors, such as management philosophy and operating style, the function of the board of directors (or equivalent) and its committees, organizational structure, methods of assigning authority and responsibility, management control methods, system development methodology, personnel policies and practices, management reaction to external influences, and internal audit. These and other aspects of internal control affect all parts of the Member firm.

In addition to compliance with required policies and procedures set out in these ~~Policy~~ Rule Statements, a Member must consider the following, to the extent that they suggest a higher standard than would otherwise be required:

(i) Recommended provisions set out in these ~~Policy~~ Rule Statements;

(ii) ~~Authoritative literature such as publications of the Mutual Fund Dealers Association of Canada, the MFDA Investor Protection Corporation, the Internal Control Guidelines published by the Investment Dealers Association of Canada and p~~Publications of the C~~hartered Professional anadian Institute of Chartered~~ Accountants Canada;

(iii) Comments on internal control that may have been made by internal and external auditors and by industry regulators, and actions that the Member has taken as a result;

(iv) Industry practice; and

(v) The balance struck between preventive and detective controls. Preventive controls are those which prevent, or minimize the chance of occurrence of, fraud or error. Detective controls do not prevent fraud and error but rather detect them, or maximize the chance of their detection, so that corrective

action may be promptly taken. The known existence of detective controls may have a deterrent effect and be preventive in that sense.

The extent of preventive controls implemented by a Member will depend on management's view of the risk of loss and the cost-benefit relationship of controlling such risk. Where the inherent risk is high (e.g. cash) the cost of effective preventive controls will usually be warranted and expected by industry regulators. On the other hand, where the inherent risk is very low (e.g. prepaid expenses), the cost of preventive controls would usually not be warranted nor expected by industry regulators. Further, in a circumstance where a preventive control is warranted, a detective control should not be considered to be a suitable alternative unless it will result in prompt detection of fraud and error and provide near certainty of recovery of the property that is the subject of the fraud or error.

For example, the safeguarding of clients' cash warrants the implementation of highly effective preventive controls. Accordingly, Members safeguard clients' cash by placing it in a trust account and performing monthly reconciliations.

Determining whether internal control is adequate is a matter of judgement. However, internal control is not adequate if it does not reduce to a relatively low level the risk of failing to meet control objectives stated in this series of ~~Policy~~ Rule Statements and, as a consequence, one or more of the following conditions has occurred or could reasonably be expected to occur:

(i) A Member is inhibited from promptly completing transactions or promptly discharging the Member's responsibilities to clients, to other members or to the industry;

(ii) Material financial loss is suffered by the Member, clients or the industry;

(iii) Material misstatements occur in the Member's financial statements; and

(iv) Violations of the rules or standards occur to the extent that could reasonably be expected to result in the conditions described in (i) to (iii) above.

Other ~~Policy~~ Rule Statements in this series set out control objectives, required and recommended firm policies and procedures and indications that internal control is not adequate. While recommended firm policies and procedures will be appropriate in many cases to meet the stated objectives, they constitute merely one of a number of methods which a Member may utilize. It is recognized that Members may conduct their business in compliance with legal and regulatory requirements although they may employ procedures which differ from the recommended firm policies and procedures contained in these ~~Policy~~ Rule Statements. The information is designed to provide guidance to member firms in the preparation of procedures tailored to the specific needs of their individual environment in meeting the stated control objectives.

Members must maintain a detailed written record which as a minimum should include the specific policies and procedures approved by senior management to comply with these ~~Policy~~ Rule Statements. These policies and procedures must be reviewed and approved in

writing by senior management at least annually, or more frequently as the situation arises, for their adequacy and suitability. One method of documentation is to note on a copy of this ~~Policy~~ Rule Statement the recommended policies and procedures which have been selected, and details of their performance such as who performs them, when, and how performance is evidenced. Other forms of documentation, such as procedures manuals, flow charts and narrative descriptions are recommended.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 2 - CAPITAL ADEQUACY

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

This ~~Policy~~ Rule Statement focuses on the monitoring of a Member's capital position, principally through its system of management and financial reporting. The effectiveness of such monitoring depends in large measure on the timeliness, completeness and accuracy of the accounting books and records from which those management reports are drawn. Establishing and maintaining policies and procedures to ensure such timeliness, completeness and accuracy is part of a Member's responsibility for internal control. However, these matters are outside the scope of this ~~Policy~~ Rule Statement 2.

Control Objective

To monitor and act upon information produced by the management reporting system so that Risk Adjusted Capital is maintained at all times in an amount at least equal to the minimum required by ~~MFDA~~ the Rules.

Minimum Required Firm Policies and Procedures

1. A member of senior management (such as the Chief Financial Officer, Chief Operating Officer or Chief Executive Officer) is responsible for continuous monitoring of the capital position of the firm to ensure that at all times Risk Adjusted Capital is maintained as prescribed by the ~~MFDA~~ Rules.

2. The Member's planning process recognizes the projected capital requirements resulting from current and planned business activities.

3. At least monthly, or more frequently if required (e.g. when the Member is operating close to early warning levels), the member of senior management assigned the task for monitoring the capital position documents that he/she has:

(a) Received management reports produced by the accounting system showing information relevant to the calculated capital position;

(b) Obtained other information concerning items that, while they may not yet be recorded in the accounting system, are likely to significantly affect the capital position (e.g. bad and doubtful debts, unreconciled positions);

(c) Calculated the capital position, compared it to planned capital limits and the prior period and reported adverse trends or variances to senior management.

4. Senior management takes prompt action to avert or remedy any projected or actual capital deficiency and reports any deficiencies, when required, immediately to the appropriate regulators.

5. The month-end estimate of required risk adjusted capital is reconciled to the Monthly Financial Report submitted for regulatory filing. Material discrepancies are investigated and steps are taken to preclude re-occurrence.

6. At least annually, the member of senior management assigned the task for monitoring the capital position documents a supervisory review of the Member's management reporting system related to capital, to identify and implement changes required to reflect developments in the business or in the regulatory requirements.

Indications That Internal Control Is Not Adequate

- The accounting system produces information that is late or requires correction.
- Staff responsible for preparing risk adjusted capital reports lack an understanding of the regulatory requirements.
- The Chief Financial Officer or person designated with the supervisory tasks of monitoring the capital position of the firm lacks an understanding of the regulatory requirements.
- No steps are taken to establish the reliability of management reports utilized to monitor the capital position.
- Planning procedures fail to take into account the impact of planned activities on required capital.
- The Member is operating near its early warning levels.
- The Member experiences significant unexpected changes in its capital position.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 3 - INSURANCE

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

Control Objective

To ensure that:

(a) The Member is in compliance with regulatory requirements for insurance;

(b) Other insurance coverage is in accordance with business needs; and

(c) Insurable losses are identified and claimed on a timely basis.

Minimum Firm Policies And Procedures

1. Insurance requirements and levels of coverage are reviewed and approved at least annually by the Member firm's Executive Committee or Board of Directors.

2. A senior officer of the firm is designated by the Member's Executive Committee or Board of Directors as responsible for insurance matters.

3. The senior officer or designated person assigned the task reviews the terms of the insurance policies regularly and ensures that the Member's operating procedures are designed to result in compliance with ~~policy~~ rule terms and regulations.

4. The senior officer or designated person assigned the task monitors business changes to evaluate the need for changes in coverage or operating procedures.

5. The senior officer or designated person assigned the task monitors business operations to ensure that insured losses are identified, the insurer is notified and losses are claimed on a timely basis and their effect on aggregate limits are taken into account.

6. Senior management takes prompt action to avert or remedy any projected or actual insurance deficiency and reports any deficiencies, when required, immediately to the appropriate regulators.

Indications That Internal Control Is Not Adequate

- Staff responsible for insurance matters are ill-informed of their duties or insufficiently trained.
- Material breaches of insurance policies which could result in denial of coverage are not detected on a timely basis.

- No steps are taken to establish the reliability of reports utilized for the monitoring of variables that may affect insurance coverage.
- Failure to report claims or to recover claims thought to be covered.
- Deficiencies in coverage are indicated on regulatory capital filings.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 4 - CASH AND SECURITIES

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

Control Objective

To safeguard both firm and clients securities and cash so that:

(a) Securities and cash are protected against material loss; and

(b) Potential losses are detected and reported (for regulatory and insurance purposes) on a timely basis.

Minimum Required Firm Policies And Procedures

Trading-General

1. Trade confirmations or confirmation reports containing evidence of settlement activity ("confirmation records") are reconciled with the Member's trading blotters at least weekly.

2. The reconciliation should be performed by personnel who do not have the ability to enter transactional data.

3. Discrepancies between the Member's trading blotters and confirmation records must be investigated and resolved immediately.

Trading-Nominee Name Accounts

1. The Member has a proper written agreement with each acceptable securities location used to hold securities.

2. At least monthly, the information system produces a report (e.g. client positions) of securities owned by clients but registered in the name of or held by the Member that require segregation and a reconciliation with third party information (e.g. monthly statements from the fund company) is performed to identify deficiencies.

3. Where a deficiency exists, the Member of senior management designated the task of monitoring the capital position of the firm should be advised of the deficiency in order to determine if it impacts the Member’s capital position.

4. There is supervisory review or other procedures in place to ensure the completeness and accuracy of the report of client holdings produced by the Member's information system.

5. Journal entries made to the Member or clients' securities holdings are properly reviewed and approved before processing.

6. The Member has a system in place to record and allocate the total amounts of dividends and interest payable and receivable at the due date.

7. Non-resident tax is withheld where applicable by law.

8. A system is in place to ensure appropriate reporting of client income for tax purposes, as required by law.

Cash-General

1. A senior official is responsible for reviewing and approving all bank reconciliations.

2. Bank accounts (including trust accounts) are reconciled, in writing, at least monthly with identification and dating of all reconciling items.

3. Journal entries to clear reconciling items are made on a timely basis and approved by management.

4. The reconciliation of bank accounts (including trust accounts), where practical, is not performed by someone with incompatible functions, including access to funds (both receipts and disbursements), access to record keeping responsibilities, including the authority to write or approve journal entries. At a minimum, the individual responsible for the reconciliation should be independent from the individual having access to funds.

5. Approval levels required to requisition a cheque are established by senior management.

6. Cheques are pre-numbered and numerical continuity is accounted for.

7. Blank cheques are properly safeguarded.

8. Cheques are signed by two authorized individuals.

9. Cheques are only signed when the appropriate supporting documentation is provided. The supporting documentation is cancelled after the cheque is signed.

10. Where facsimile signature is used, access to the machine is limited and supervised.

11. A limited number of authorized personnel are permitted to withdraw monies from bank accounts, including by way of electronic transfer.

Trust Accounts For Client Funds

1. All client cheques are recorded upon receipt by the Member and deposited to the trust account on the day of receipt. If a cheque is received after normal business hours, the cheque is deposited the following business day.

2. Deposits to the trust account are balanced daily against deposit records, receivable records, and mutual fund settlement records.

3. Members must segregate interest received that is payable to clients in respect of monies held in trust for clients in accordance with Rules 3.3.1 and 3.3.2.

4. Members that pay interest to clients in accordance with ~~MFDA~~ Rule 3.3.2(e) must maintain adequate records of amounts owing and paid to each individual client.

Indication That Internal Controls Are Inadequate

- There is a significant number and dollar value of unreconciled positions and balances.
- Significant differences in reconciliations are not resolved on a timely basis.
- A large number of staff is involved in reconciling positions.
- Material losses have occurred.

~~MFDA~~ INTERNAL CONTROL ~~POLICY~~ RULE STATEMENT 5 - SEGREGATION OF CLIENTS' SECURITIES

This ~~Policy~~ Rule Statement is one in a series that prescribes requirements for and provides guidance on compliance with ~~MFDA~~ Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time." It should be read in the context of Internal Control ~~Policy~~ Rule Statement 1 dealing with General Matters.

This ~~Policy~~ Rule Statement is applicable where client securities are held by or in the name of the Member for the benefit of the client.

Control Objective

To segregate clients' securities so that:

(a) The Member is in compliance with regulatory and legal requirements for segregation; and

(b) Securities are not improperly used.

Minimum Required Firm Policies And Procedures

1. Securities requiring segregation are placed in "acceptable securities locations", as defined by ~~MFDA~~ the Rules, on a timely basis.

2. Written custodial agreements with applicable regulatory provisions exist for securities held at acceptable securities locations.

3. Securities are moved into or out of segregation only by authorized personnel.

4. A client is identified for each transaction.

5. At least monthly, the information system produces a report (e.g. client positions) of securities owned by clients but registered in the name of or held by the Member that require segregation and a reconciliation with third party information (e.g. monthly statements from the fund company) is performed to identify deficiencies.

6. Where a deficiency exists, the member of senior management assigned the task of monitoring the capital position of the firm should be advised of the deficiency in order to determine if it impacts the firm's capital position.

7. There is a monthly supervisory review of compliance with segregation requirements for clients' securities.

Indication That Internal Controls Are Inadequate

- Insufficient attention is paid to preventing violations of legal and regulatory provisions concerning securities held in segregation, including preventing the hypothecation of securities.

- Securities are held without a written custodial agreement.

13 RULE 500 - BRANCH REVIEW REQUIREMENTS

Introduction

This ~~Policy~~ Rule establishes minimum standards for the development and implementation of branch and sub-branch review procedures. All references to "branch" in this ~~Policy~~ Rule include sub-branches as defined in ~~MFDA By-law~~ Rule No.1.

Members are responsible for establishing, implementing and maintaining policies and procedures to ensure that business is conducted and managed in accordance with ~~MFDA~~ By-laws, the Rules ~~and Policies~~ and with applicable securities legislation. Under ~~MFDA Policy~~ Rule 200, the Member is required to conduct an on-going review of sales compliance procedures and practices at both head office and at branch offices to confirm that these procedures are adequately fulfilling the purposes for which they have been designed. The requirement to complete regular branch reviews is consistent with these obligations and will serve to enhance the Member's ability to meet the fundamental supervision requirements under ~~MFDA~~ By-laws and~~,the~~ Rules ~~and Policies~~.

The intent of this ~~Policy~~ Rule is to establish minimum standards for internal branch review programs ("Branch Review Program"), while allowing Members sufficient flexibility to develop procedures that are appropriate to the Member's size and business model. Accordingly, strict adherence to the minimum standards as set out in this ~~Policy~~ Rule will not necessarily ensure that a Member's Branch Review Program is effective to ensure proper supervision and compliance with ~~MFDA~~ Rules. The objective is for Members to create and effectively implement processes that maximize their ability to detect potential compliance issues, so that corrective action may be taken before serious problems occur. ~~MFDA S~~staff will assess the effectiveness of the Member's Branch Review Program in the course of conducting compliance examinations and may impose additional requirements to ensure compliance with ~~MFDA By-laws,~~the Rules ~~and Policies~~.

Branch Review Procedures

Each Member must establish a Branch Review Program to effectively assess and monitor compliance with regulatory requirements at all branch locations.

(a) ***General Requirements***

- The Branch Review Program must include an assessment of the supervisory procedures and practices in place at the branch, as well as the quality of execution of those procedures.

- The Branch Review Program must address all significant aspects of the Member's policies and procedures manual and ~~MFDA~~ By-laws~~,~~ and the Rules ~~and Policies~~.

- The Branch Review Program must include interviews with branch supervisors and a selection of other Approved Persons along with substantive testing to verify the accuracy of information that is provided in the interviews. Substantive testing

should involve reviewing client files, trade blotters, trust account records, advertising and marketing material and other relevant records.

(b) ***Branch Interviews***

- The purpose of the interviews is to confirm that the branch manager and Approved Persons are aware of requirements under ~~MFDA~~ By-laws, the Rules ~~and Policies~~ and applicable securities regulation. It is particularly important that the reviewer confirm that the branch manager has a good understanding of the fundamental supervisory requirements. The interview process also serves as a forum for the branch manager and Approved Persons to raise and discuss issues and areas of regulatory concern.

- The interviews must also include discussion about branch policies and procedures relating to:

  - products and services offered to clients;
  - complaints;
  - advertising and sales communications;
  - referral arrangements;
  - outside activities;
  - account opening procedures; and
  - other branch and sub-branch supervision issues.

(c) Review of Trade Blotters and Other Supervisory Review Documentation

- Documentation must be reviewed to confirm that trade reviews have been performed adequately and in a timely manner covering the minimum requirements of ~~MFDA Policy~~ Rule 200. This includes a review to confirm that all trades in exempt securities and a sample of initial trades, leveraged transactions, trades made in accounts where the client is a Related Person, as defined by the Income Tax Act (Canada), of the registered salesperson and the registered salesperson has full or partial control or authority over the financial affairs of the client, and trades in speculative funds have been reviewed. Samples of different types of transactions, including purchases, switches and redemptions must be reviewed. Trade blotters must be reviewed to assess:

  - trading patterns;
  - evidence of supervision; and
  - timeliness of review.

- The suitability of individual trades must be assessed to confirm that the quality of trade supervision is consistent with the Member's standards and regulatory expectations.

- Trade supervision records must also be reviewed to confirm the recording of issues noted by supervisory staff, inquiries made, responses received and resolutions achieved.

(d) Review of Client Files

- Client files must be examined to verify that there is proper account opening documentation on file and that branch client files are appropriately safeguarded. Know-your-client information must be reviewed to:

- assess completeness;

- confirm that back up for any changes has been maintained on file; and

- confirm that KYC information on the back office system matches with that recorded in the files.

- The branch review process must confirm that account opening approval procedures have been properly followed, where these are the responsibility of branch staff.

- Client files must be examined to verify that proper evidence of client instructions and any relevant trading authorizations have been maintained on file. Files should be reviewed to assess the adequacy of notes regarding advice or recommendations provided to the client, as well as notes regarding discussions relating to fees and services, if any.

Trade orders must be reviewed to:

- assess suitability;

- detect unlicensed / out-of-province trading;

- confirm proper identification of leveraged trades; and

- confirm timeliness of trade processing.

(e) Review of Sales Communications, Advertising and Client Communications

- The Branch Review Program must include a review of sales communications, advertising and client communications, including business cards, letterhead and websites to confirm that any required approvals have been obtained.

- The branch review process must also involve, where appropriate, discussions and testing to detect:

- misleading communications;
- trade names of Approved Persons that have not been approved by the Member;
- undisclosed outside activities or personal financial dealings with clients;
- securities related business conducted outside of the Member; and
- undisclosed referral arrangements.

- Where the reviewer detects a potential material deficiency with respect to the conduct of outside activity or personal financial dealings under ~~MFDA By-laws,~~ the Rules ~~or Policies~~, the Branch Review Program must provide for the review of files of Approved Persons relating to non-Member business.

(f) Complaints

- The branch review process must confirm that any complaints that may have been made involving individuals at the branch have been recorded and handled in accordance with Member procedures and ~~MFDA By-laws,~~ the Rules ~~and Policies~~.
- The nature of any complaints, as well as the timeliness and fairness of resolution must be assessed.
- The branch review process must confirm that all complaints and pending legal actions are made known to the compliance officer at head office (or another person at head office designated to receive such information) within two business days in accordance with ~~MFDA Policy~~ Rule 3~~0~~0. ("Handling Client Complaints").

Scope of Review

Sample size and the extent of the review are matters of discretion for the Member. However, at a minimum, the review should involve a preliminary screening of the branch that is sufficient to provide a reasonable indication of items or issues for further investigation. Sample size and the extent of review must be reasonable based on a number of factors such as:

- the specific activities at the branch;
- complaint history;
- number of Approved Persons at the branch;
- trade volume/commissions earned;
- results of previous reviews;
- ~~MFDA~~ compliance examination findings;

- daily trade supervision issues;
- experience of supervisory staff at the branch;
- supervisory tools used at the branch (manual or automated);
- the nature of or outside activities carried on at the branch;
- the volume of leveraged trades; and
- the date of the last review.

Branch Review Cycle and Schedule

The Member must be able to justify its branch review schedule and cycle by developing a risk-based methodology to rank branch locations as high, medium or low risk using appropriate criteria. Such criteria would include the factors set out above under "Scope of Review". Members are generally expected to perform an on-site review of their branches no less than once every three years. However, Members must review certain branches more frequently than once every three years if justified based on risk. Where, under unusual circumstances, a Member exceeds a three year branch review cycle, the Member must be able to justify the longer review cycle by demonstrating that the branches that have not been subject to an on-site review are low risk and have been subject to alternative compliance review procedures performed by head office, such as an off-site desk review. Under no circumstances however, should a Member never perform an on-site review of a branch.

The branch review cycle and the status of completion of the branch review cycle against benchmarks should be included as part of the annual compliance report to the board of directors or partners of the Member required by ~~MFDA~~ Rule 2.5.2(b).

Qualifications for Reviewers

The individuals responsible for performing the branch reviews must have the training, skills and proficiency necessary to accomplish the objectives of the review program. The individuals must possess sufficient knowledge not only to be able to follow prescribed procedures, but to be able to know where follow up review should be pursued. In addition, Members should ensure that individuals delegated the responsibility to perform branch reviews have adequate existing time or whether workloads can be rescheduled in order to provide the time necessary for proper performance.

Individuals that have successfully completed the courses required for designation as a branch manager as set out under ~~MFDA~~ Rule 1.2.2(a) or that have equivalent experience, training or education would generally be considered sufficiently qualified to perform branch reviews. The Member must consider the responsibilities and functions that are performed as part of a branch review and make the determination of what constitutes equivalent experience, training or education sufficient to qualify an individual as a branch

reviewer. The Member will be required to satisfy the ~~MFDA~~ that the equivalency standard has been met.

Equivalent experience, training or education may include: audit experience, legal training in the area of securities or mutual fund regulation, or experience in a regulatory supervisory or compliance role. Members may also have an internal training program for branch reviewers, which may satisfy the equivalency test.

The branch reviewer must be independent of the branch and the branch manager, so as to ensure that the reviewer can act objectively without preconceived opinions and is not subject to inappropriate influence when performing the review.

Reporting of Results

All serious issues detected in the branch reviews must be made known to the compliance officer at head office (or another person at head office designated to receive such information) within a reasonable period of time.

Each Member must also ensure that branch managers are made aware of all issues that are identified in the branch review in a timely manner. In addition, Approved Persons at the branch should be made aware of issues identified in the report relevant to them.

The report to the branch manager on the results of the branch review must include the following information:

- the date of the review;
- basic branch information, including the Approved Persons and staff at the branch location;
- details of any compliance deficiencies noted in completing the branch review including missing documentation or any gaps in supervision;
- the date of the report; and
- the date by which a response is required.

Follow Up of Branch Review Findings

The Member must have procedures in place to ensure that the issues identified in the course of the branch review are followed up and resolved. Therefore, the Branch Review Program must provide for:

- consistent and timely reporting of results;
- a means of tracking responses to the reports; and

- a means of ensuring that the branch implements all required changes in a reasonable amount of time.

Branch Review Files

Members must maintain orderly, up-to-date files for each branch that has been reviewed. The files must include details of the procedures performed at the branch and all working papers to support the work done and provide evidence of any deficiencies noted. All follow-up documentation, including the report to the branch manager, must also be included in the file. Records must be maintained for a period of seven years and must be made available for review by the ~~MFDA~~ Corporation, if requested.

Branch review records should be used to identify significant deficiencies that may disclose a need for further education and training of branch supervisors, Approved Persons, or other staff. When systemic issues are detected through the branch review process, a review of internal procedures and practices may be warranted.

14 RULE 600 – INFORMATION REPORTING REQUIREMENTS

1. Introduction

This ~~Policy~~ Rule establishes minimum requirements concerning events that Approved Persons are required to report to Members and events that Members are required to report to the Corporation ~~MFDA~~ pursuant to Rule 1.4.

Part A of this ~~Policy~~Rule, entitled "*Approved Person Reporting Requirements*", sets out details regarding the reporting of information under Rule 1.4(b) by Approved Persons.

Part B of this ~~Policy~~Rule, entitled "*Electronic Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.4(a)(i) and Rule 1.4(a)(ii) by Members. All reporting under Part B must be submitted through the electronic reporting system provided by the ~~MFDA~~ Corporation. The reporting of events that are required to be submitted electronically by any other means is a failure to report the event and a failure to comply with this ~~Policy~~Rule.

Part C of this ~~Policy~~Rule, entitled "*Other Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.4(a)(iii) by Members. All reporting under Part C must be submitted to the ~~MFDA~~ Corporation in writing.

In addition to these reporting requirements, Members are required to comply with other reporting requirements which may change from time to time, and which include but are not limited to:

(a) ~~MFDA~~ The following reporting requirements, some of which may also require ~~MFDA~~ approval by the Corporation:

(i) General By-law No. 1~~By-law~~~~Rule No. 1 section 13.7~~, section 3.7 ~~– Reorganizations, mergers and amalgamations~~ Amalgamation of Members;

~~(i)~~(ii) General By-law No. 1, section 3.8 – Dealer Member Resignation;

(iii) ~~By-law~~~~Rule No. 1 section 13.9~~ General By-law No.1 ~~—~~, section 3.10 – Transferability, Reorganizations~~Changes in ownership and control~~;

~~(ii)~~(iv) Rule 8.4 – Ownership;

~~(iii)~~(v) Rule 1.1.6 – Introducing/Carrying dealer arrangements;

~~(iv)~~(vi) Rule 3.1.1 – Change in dealer level;

~~(v)~~(vii) Rule 3.1.2 – Risk adjusted capital less than zero;

~~(vi)~~(viii) Rule 3.2.5 – Accelerated payment of long term debt; and

~~(vii)~~(ix) Rule 3.5 – Financial filing requirements

(b) reporting requirements under applicable provincial securities laws in connection with a Member's mutual fund dealer registration.

2. Definitions

"any jurisdiction" means any jurisdiction inside or outside of Canada.

"business day" means a day other than Saturday, Sunday or any officially recognized Federal or Provincial Statutory holiday.

"civil claim" includes civil claims pending before a court or tribunal and arbitration.

"client" means a person who is a client of the Member.

"compensation" means the payment of a sum of money, securities, reversal or inclusion of a securities transaction (whether the transaction has a realized or unrealized loss) or any other equivalent type of entry which is intended to compensate a client or offset an act of a Member or Approved Person. A correction of a client account or position as a result of good faith trading errors and omissions is not considered to be "compensation" for the purposes of this ~~Policy~~Rule.

"event" means a matter that is reportable under this ~~Policy~~ Rule by a Member or Approved Person.

"law" includes, but is not limited to, all legislation of any jurisdiction and includes any rules, policies, regulations, rulings or directives of any securities regulatory authority of any jurisdiction.

"member business" means all business activities conducted by and through the Member, whether securities related or otherwise.

"misrepresentation" means:

(i) an untrue statement of fact, either in whole or in part; or

(ii) an omission to state a fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

"regulatory body" means, but is not limited to, any regulatory or self-regulatory organization that grants persons or organizations the right to deal with the public in any capacity.

"regulatory requirements" means, but is not limited to, the by-laws, rules, policies, regulations, rulings, orders, terms and conditions of registration, or agreements of any regulatory body in any jurisdiction.

"securities" includes exchange contracts, commodity futures contracts and commodity futures options.

"service complaints" means:

(i) any complaint by a client which is founded on customer service issues and is not the subject of any securities law or regulatory requirements; or

(ii) any complaint by a client as a result of a good faith trading error or omission.

3. General Reporting Requirements

3.1. Events regarding Members that must be reported shall not be limited solely to securities related business, but shall include all member business.

3.2. Events regarding Approved Persons that are reported by Approved Persons to the Member shall not be limited solely to securities related business and member business, but shall include all business conducted by the Approved Person.

3.3. The obligation to report an event under this ~~Policy~~ Rule is limited to events of which a Member or Approved Person has become aware regardless of the means by which the Member or Approved Person became aware of the event. If the reporting timeframes have expired before the Member or Approved Person has become aware of the event, the event shall be reported immediately after the Member or Approved Person has become aware of such event.

3.4. A Member is expected to be aware of events relating to Approved Persons by the receipt of reports from Approved Persons and by carrying out the Member's supervisory, monitoring and review obligations over the conduct of its business.

3.5. All requirements to report events regarding former Approved Persons are limited to events which occurred while the Approved Person was an Approved Person of the Member.

3.6. A Member shall designate a compliance officer at its head office (or another person at head office) to whom reports made by Approved Persons, as required by section 4, shall be submitted.

3.7. Documentation associated with each event required to be reported under this ~~Policy~~ Rule shall be maintained for a minimum of 7 years from the resolution of the matter and made available to the ~~MFDA~~ Corporation upon request.

PART A

APPROVED PERSON REPORTING REQUIREMENTS

4. Approved Person Reporting Requirements

4.1. An Approved Person shall report the following events to his or her current Member in such detail as required by the Member, within 2 business days:

(a) the Approved Person is the subject of a client complaint in writing;

(b) the Approved Person is aware of a complaint from any person, whether in writing or any other form, and with respect to him or herself, or any other Approved Person, involving allegations of:

(i) theft, fraud, misappropriation, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading;

(ii) a breach of client confidentiality;

(iii) engaging in securities related business outside of the Member;

(iv) engaging in an undeclared outside activity ; or

(v) personal financial dealings with a client.

(c) whenever the Approved Person has reason to believe that he or she has or may have contravened, or is named as a defendant or respondent in any proceeding, in any jurisdiction, alleging the contravention of:

(i) any securities law; or

(ii) any regulatory requirements.

(d) the Approved Person is charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;

(e) the Approved Person is named as a defendant in a civil claim, in any jurisdiction, relating to the handling of client accounts or trading or advising in securities;

(f) the Approved Person is denied registration or a license that allows the Approved Person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions;

(g) the Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is deemed insolvent;

(h) there are garnishments outstanding or rendered against the Approved Person.

PART B

ELECTRONIC REPORTING REQUIREMENTS FOR MEMBERS

5. General Member Electronic Reporting Requirements

5.1. Members shall report the following events to the ~~MFDA~~ Corporation, through an electronic reporting system provided by the ~~MFDA~~Corporation, within 5 business days of the occurrence of the event, except for events reported under section 6.1(a) of this ~~Policy~~Rule, which must be reported to the ~~MFD~~Corporation ~~A~~ within 20 business days.

6. General Events to be Reported

6.1. Members shall report to the ~~MFDA~~ Corporation:

(a) all client complaints in writing, against the Member or a current or former Approved Person, relating to member business, except service complaints;

(b) whenever a Member is aware, through a written or verbal complaint or otherwise, that the Member or any current or former Approved Person has or may have contravened any law or regulatory requirement, relating to:

(i) theft, fraud, misappropriation, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading;

(ii) a breach of client confidentiality;

(iii) engaging in securities related business outside of the Member;

(iv) engaging in an undeclared outside activity; or

(v) personal financial dealings with a client.

(c) whenever the Member, or a current or former Approved Person, is:

(i) charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;

(ii) named as a defendant or respondent in, or is subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of any securities law;

(iii) named as a defendant or respondent in, or is the subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of regulatory requirements;

(iv) denied registration or a license that allows a person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions;

(v) named as a defendant in a civil claim, in any jurisdiction, relating to handling of client accounts or trading or advising in securities.

(d) whenever an Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is deemed insolvent;

(e) there are garnishments outstanding or rendered against the Member or an Approved Person.

7. Reporting of Updates and Resolution of Events

7.1. Members shall update event reports previously reported to reflect updates to, or the resolution of, any event that has been reported pursuant to section 6.1 of this ~~Policy~~ Rule within 5 business days of the occurrence of the update or resolution and such update or resolution shall include but not be limited to:

(a) any judgments, awards, arbitration awards or orders and settlements in any jurisdiction;

(b) compensation paid to clients directly or indirectly, or any benefit received by clients from a Member or Approved Person directly or indirectly;

(c) any internal disciplinary action or sanction against an Approved Person by a Member;

(d) the termination of an Approved Person;

(e) the results of any internal investigation conducted.

8. Other Events to be Reported

8.1. For matters that are not the subject of an event report in section 6.1 of this ~~Policy~~Rule, the Member shall report to the ~~MFDA~~ Corporation:

(a) whenever the Member has initiated disciplinary action that involves suspension, demotion or the imposition of increased supervision on an Approved Person;

(b) whenever the Member has initiated disciplinary action that involves the withholding of commissions or the imposition of a financial penalty in excess of $1000;

(c) whenever an employment or agency relationship with an Approved Person is terminated and the Notice of Termination filed with the applicable securities commission discloses that the Approved Person was terminated for cause, or discloses information regarding internal discipline matters or restrictions for violations of regulatory requirements;

(d) whenever the Member or Approved Person has paid compensation to a client either directly or indirectly in an amount exceeding $15,000.

PART C

OTHER REPORTING REQUIREMENTS FOR MEMBERS

9. Other Information Reporting Requirements for Member

9.1 Members shall report the events under Part C of this ~~Policy~~ Rule to the ~~MFDA~~ Corporation, in writing, within 5 business days of the occurrence of the event, except for events reported under section 10 of this ~~Policy~~Rule, which must be reported to the ~~MFDA~~ Corporation immediately.

10. Bankruptcy, Insolvency and Related Events

10.1. Members must report to the ~~MFDA~~ Corporation whenever:

(a) the Member is declared bankrupt;

(b) the Member makes a voluntary assignment in bankruptcy;

(c) the Member makes a proposal under any legislation relating to bankruptcy or insolvency;

(d) the Member is subject to, or instituting any proceedings, arrangement or compromise with creditors;

(e) a receiver and/or manager assumes control of the Member's assets.

11. Change of Name

11.1. Members must report to the ~~MFDA~~ Corporation any change with respect to:

(a) the legal name of the Member;

(b) the names under which the Member carries on business (trade or style names);

(c) trade, business or style names, other than that of the Member, used by Approved Persons.

The name of the Approved Person, the trade or business name the Approved Person is using, and the Approved Person's branch location must be provided.

12. Change of Contact Information

12.1. Members must notify the ~~MFDA~~ Corporation of any change in address for service or main telephone or fax number.

13. Change in Member Registration or Licensing

13.1. Members must report to the ~~MFDA~~ Corporation any changes in the following:

(a) type of registration or licensing with the relevant securities commission;

(b) jurisdictions in which any dealer business of the Member is conducted; and

(c) investment products traded or dealt in.

14. Changes in Organizational Structure

14.1. Members must report to the ~~MFDA~~ Corporation any changes in a Member's directors, chief executive officer, ultimate designated person, chief compliance officer, chief financial officer, or chief operating officer or individuals performing the functional equivalent of any of those positions.

15. Other Business Activities

15.1. Members must report to the ~~MFDA~~ Corporation any business, other than the sale of investment products, which the Member engages in or proposes to engage in.

16. Change of Auditor

16.1. Members must report to the ~~MFDA~~ Corporation any change in a Member's auditor and/or audit engagement partner. A new Letter of Acknowledgement ~~(Schedule H.1 of the MFDA Membership Application Package)~~ must be submitted to the ~~MFDA~~ Corporation.

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15 RULE 700 – PERFORMANCE REPORTING

Purpose

Under Rule 5.3.4 (Performance Report), Members are required to deliver a performance report to a client. The purpose of this ~~Policy~~ Rule is to set out additional requirements that Members must comply with when meeting requirements under ~~MFDA~~ Rules respecting the performance report.

General Requirements

(1) The performance report required under Rule 5.3.4 must be delivered in a separate report for each account of the client;

(2) Notwithstanding subsection (1), a Member may provide a performance report that consolidates, into a single report, the required information for more than one of a client's accounts if:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(3) Where a consolidated performance report is sent to a client, pursuant to subsection (2), above and a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3), both consolidated reports must consolidate information for the same accounts.

(4) The requirement to provide a performance report, as prescribed under Rule 5.3.4, does not apply to a client account that has existed for less than a 12-month period.

(5) A Member is not required to provide a performance report to a client for a 12-month period referred to in Rule 5.3.4 if the Member reasonably believes no market value can be determined for any investments of the client.

Content of Performance Report

(1) A performance report required to be delivered under Rule 5.3.4 must include all of the following in respect of investments reported on the account statement required to be delivered under Rule 5.3.1:

(a) the market value of all cash and investments in the client's account as at the beginning of the 12-month period covered by the report;

(b) the market value of all cash and investments in the client's account as at the end of the 12-month period covered by the report;

(c) the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the account, in the 12-month period covered by the report;

(d) the market values determined under subsection (1.1);

Annual Change in Market Value

(e) the annual change in the market value of the client's account for the 12-month period covered by the performance report, determined using the following formula:

A – B – C + D

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

B = the market value of all cash and investments in the account at the beginning of that 12-month period;

C = the market value of all deposits and transfers of cash and investments into the account in that 12-month period; and

D = the market value of all withdrawals and transfers of cash and investments out of the account in that 12-month period.

Cumulative Change in Market Value

(f) subject to subsection (1.2), the cumulative change in the market value of the account since the account was opened, determined using the following formula:

A – E + F

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

E = the market value of all deposits and transfers of cash and investments into the account since account opening; and

F = the market value of all withdrawals and transfers of cash and investments out of the account since account opening.

Annualized Total Percentage Return

(g) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry;

(h) the definition of "total percentage return" set out under Rule 5.3(1) and a notification indicating the following:

(i) that the total percentage return in the performance report was calculated net of charges;

(ii) the calculation method used; and

(iii) a general explanation in plain language of what the calculation method takes into account.

(1.1) For the purpose of paragraph 1(d), include the following, as applicable:

(a) if the client's account was opened on or after July 15, 2015, the market value of all deposits and transfers of cash and investments into the client's account, and the market value of all withdrawals and transfers of cash and investments out of the client's account, since opening the account;

(b) if the client's account was opened before July 15, 2015, and the Member has not delivered a performance report for the 12-month period ending December 31, 2016:

(i) the market value of all cash and investments in the client's account as at

(A) July 15, 2015; or

(B) a date that is earlier than July 15, 2015, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, and

(ii) the market value of all deposits and transfers of cash and investments into the account and the market value of all withdrawals and transfers of cash and investments out of the account, since the date referred to in clause (i)(A) or (B), as applicable;

(c) if the client's account was opened before July 15, 2015, and the Member has delivered a performance report for the 12-month period ending December 31, 2016:

(i) the market value of all cash and investments in the client's account as at

(A) January 1, 2016; or

(B) a date that is earlier than January 1, 2016, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, and

(ii) the market value of all deposits and transfers of cash and investments into the account and the market value of all withdrawals and transfers of cash and investments out of the account, since the date referred to in clause (i)(A) or (B), as applicable;

(1.2) Paragraph 1(f) does not apply if the client's account was opened before July 15, 2015 and the Member includes in the performance report the cumulative change in the market value of the account determined using the following formula, instead of the formula in paragraph 1(f):

$$\mathbf{A - G - H + I}$$

where

A = the market value of all cash and investments in the account as at the end of the 12-month period covered by the performance report;

G = the market value of all cash and investments in the account determined as follows:

(a) if the client's account was opened before July 15, 2015, and the Member has not delivered a performance report for the 12-month period ending December 31, 2016, the market value of all cash and investments in the client's account as at:

(i) July 15, 2015, or

(ii) a date that is earlier than July 15, 2015, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date, or

(b) if the client's account was opened before July 15, 2015, and the Member delivered a performance report for the 12-month period ending December 31, 2016, the market value of all cash and investments in the client's account as at:

(i) January 1, 2016, or

(ii) a date that is earlier than January 1, 2016, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date;

H = the market value of all deposits and transfers of cash and investments into the account since the date used for G; and

I = the market value of all withdrawals and transfers of cash and investments out of the account since the date used for G.

Annualized Total Percentage Return – Reporting Periods

(2) The information delivered for the purposes of paragraph (1)(g) must be provided for each of the following periods:

(a) the 12-month period covered by the performance report;

(b) the 3-year period preceding the end of the 12-month period covered by the report;

(c) the 5-year period preceding the end of the 12-month period covered by the report;

(d) the 10-year period preceding the end of the 12-month period covered by the report;

(e) subject to subsection (3.1), the period since the client's account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before July 15, 2015, the period since

(i) July 15, 2015, or

(ii) a date that is earlier than July 15, 2015 if the Member reasonably believes accurate, recorded annualized total percentage return information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date.

(3) Despite subsection (2), if any portion of a period referred to in paragraphs (2)(b), (c) or (d) was before July 15, 2015, the Member is not required to report the annualized total percentage return for that period.

(3.1) Paragraph (2)(e) does not apply to a Member that delivered a performance report for the 12-month period ending December 31, 2016 if the Member provides, in the report, the annualized total percentage return information referred to in paragraph (2)(e) for the period since

(a) January 1, 2016, or

(b) a date that is earlier than January 1, 2016 if the Member reasonably believes accurate, recorded annualized total percentage return information is

available for the client's account and it would not be misleading to the client to provide that information as at the earlier date.

Presentation

(4) The information required to be delivered under Rule 5.3.4 must be presented using text, tables and charts and must be accompanied by notes in the performance report explaining:

(a) the content of the report and how a client can use the information to assess the performance of the client's investments; and

(b) the changing value of the client's investments as reflected in the information in the report.

(5) If a Member delivers information required under Rule 5.3.4 in a report to a client for a period of less than one year, the Member must not calculate the disclosed information on an annualized basis.

(6) If a Member reasonably believes the market value cannot be determined for an investment position, the market value must be assigned a value of zero in the calculation of the information required to be delivered under Rule 5.3.4 and the fact that its market value could not be determined must be disclosed to the client.

16 RULE 800 – PROFICIENCY STANDARD FOR APPROVED PERSONS SELLING EXCHANGE TRADED FUNDS ("ETFs")

Purpose

Under Rule 1.2.3 (Education, Training and Experience), an Approved Person must not perform an activity that requires securities registration unless the Approved Person has the education, training, and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features, and risks of each security that the Approved Person recommends. A similar requirement exists under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103").

Conventional mutual funds are those that are traded as a primary distribution with the issuer. In contrast, ETFs are mutual funds that are traded in the secondary market on an exchange. The purpose of this ~~Policy~~ Rule is to set out minimum requirements that Members and Approved Persons must meet to ensure that advice and transactions in respect of the sale of ETFs by Approved Persons satisfy the proficiency, experience, and related requirements under Rule 1.2.3 and NI 31-103. Requirements under this ~~Policy~~ Rule do not apply to the sale of conventional mutual funds that invest in ETFs.

Background

~~MFDA~~ Members and their Approved Persons are permitted to sell ETFs that meet the definition of a mutual fund. However, there are important differences between ETFs and conventional mutual funds. With the exception of the Canadian Securities Course ("CSC"), existing courses and examinations used by Approved Persons to satisfy proficiency requirements under NI 31-103, in respect of the sale of conventional mutual funds, **do not** adequately address the sale of ETFs. As a result, additional measures must be taken to ensure that advice and transactions in respect of the sale of ETFs by Members and their Approved Persons meet the proficiency, experience, and related requirements under Rule 1.2.3 and NI 31-103.

ETF Proficiency and Training

Members must ensure that each Approved Person advising or transacting in ETFs has adequate proficiency, education, and training. In order to satisfy requirements under Rule 1.2.3, Approved Persons must receive appropriate training from the Member in respect of the following:

- information about the characteristics, features, benefits, and risks of ETFs; and
- how ETFs will be offered through the Member.

Member Policies and Procedures

Members are responsible for performing a reasonable level of due diligence on ETFs prior to their approval for sale. As part of this due diligence, Members are required to determine

if the ETF meets the definition of a mutual fund. Where ETFs are sold by a Member, the Member must have appropriate policies and procedures regarding their sale. Approved Persons must receive specific training on those aspects of the Member's policies and procedures that deal with advising and transacting in ETFs. Such training must, at a minimum, include:

- detailed product information in respect of the ETFs approved for sale by the Member;
- how market quotes will be obtained;
- the types of trades accepted and the information required for each trade accepted;
- the disclosure information required for each transaction;
- how evidence of trade instructions, whether executed or unexecuted, and disclosures will be maintained; and
- how trade orders will be processed.

ETF Product Training for Approved Persons

As noted above, there are existing courses and examinations used by Approved Persons to satisfy proficiency requirements under NI 31-103 in respect of the sale of conventional mutual funds. Some of the information in such courses overlaps with information that Approved Persons would be required to know and understand for the purpose of providing advice and transacting in ETFs. Training must focus on unique aspects of ETFs that Approved Persons must understand in respect of the particular ETF products offered through the Member. In addition, Approved Person training in this area must highlight key differences between ETFs and conventional mutual funds. Attached as Appendix "A" to this ~~Policy~~ Rule is a chart that sets out how new information and existing topics/concepts should be addressed as part of ETF product training for Approved Persons.

ETF product training for Approved Persons may be satisfied by courses offered through independent course providers, or training offered through the Member. In either case, the training must, at a minimum, address all of the matters included in the chart set out in Appendix "A".

Independent Course Providers

The following courses would be acceptable to meet ETF product training requirements for Approved Persons:

- ***"Exchange Traded Funds for Mutual Fund Representatives"*** – (Canadian Securities Institute);
- ***"The Exchange-Traded Funds Course"*** – (IFSE Institute);
- ***"Exchange Traded Funds for Representatives of Mutual Fund Dealers"*** – (Smarten Up Institute)

ETF Product Training Provided by Member

Where ETF product training for Approved Persons is provided by the Member, the training must include an examination to be successfully completed by the Approved Person. The Member must keep appropriate records of such training, as required under ~~MFDA~~ Rule No. 5 (Books, Records and Reporting). Examples include, but are not limited to, the following:

- attendance records;
- evidence of training sessions;
- content of training materials; and
- results of formal examinations.

Appendix "A"
ETF Product Training for Approved Persons – Chart

Below is a chart that sets out how new information and existing topics/concepts must, at a minimum, be addressed as part of ETF product training for Approved Persons.

Legend:

New Information	Content should be explained in detail. Generally a higher level of detail is expected. Should include comparison of ETFs and conventional mutual funds.
Existing Topics and Concepts	Existing topics and concepts should be explained in the context of ETFs. Should include comparison of ETFs and conventional mutual funds.

General Topic	Sub-Topics	Comment	Percentage Allocation
Introduction to ETFs	Definition of an Exchange-Traded Fund	Provide an ETF definition. Explain how they have attributes of both conventional mutual funds and stocks.	15
	Registration/licensing requirements and limitations	Review the registration requirements to sell mutual funds and the limitations of registration for Dealing Representatives. Review products that Dealing Representatives can and cannot sell.	
	Description of ETFs that may be sold by Approved Persons. For example, index tracking, actively managed, and quasi-active/quasi-passive ETFs	Describe in detail the types of ETFs that may be sold by Dealing Representatives.	
	Description of ETFs that may not be sold by Approved Persons. For example, leverage and inverse ETFs	Describe in general the types of ETFs that may not be sold by Dealing Representatives.	

General Topic	Sub-Topics	Comment	Percentage Allocation
Regulation of ETFs	Offering Documents • (National Instrument 41-101 – General Prospectus Requirements) Disclosure Requirements • Delivery of ETF disclosure document, as prescribed under securities legislation • Continuous Disclosure Investment Restrictions • Investment restrictions applicable to ETFs Independent Review Committee • Role and responsibility	Generally describe the regulation of ETFs including the offering documents, disclosure requirements, investment restrictions and the role of the Independent Review Committee. May include a summary of how the regulation of ETFs is similar/different than conventional mutual funds.	10

Characteristics of ETFs	Description of investment management styles:
	• Active vs. Passive
	• Quasi-Active/Quasi-Passive
	• Indexing
	  ○ What are indices?*
	  ○ Tracking an Index
	  ▪ Physical vs. Synthetic
	  ▪ Full Replication vs. Sampling
	  ▪ Tracking Error
		Describe Passive vs. Active investment management styles.
		
		Describe Quasi-Passive/Active investment management styles.
		
		Provide examples of each style.
		
		Define "Index" and describe in detail the different methods for tracking an Index.
		
		Explain, and give examples of, tracking errors.
			20

	Creation and Redemption of Units
	
	• Designated Brokers/Dealers/Market Makers
	• New ETFs
	  ○ In-kind creation
	  ○ In-cash creation
	• Existing ETFs
	  ○ Additional unit creation
	  ○ Redemption of units
	  ○ When number of units may change
		Describe generally the various roles and responsibilities of: Designated Brokers; Dealers; Market Makers.
		
		Describe in detail how new ETFs are created and funded.
		
		Describe how new units are created for existing ETFs.
		
		Describe how existing ETF units are redeemed.
		
		Describe circumstances where ETF units may be created or redeemed.	

	Operating Costs • Management fees • Operating expenses • Trading expenses • Trailing commissions	Generally describe the various operating costs that can apply to ETFs with a focus on differences between ETFs and conventional mutual funds.	

General Topic	Sub-Topics	Comment	Percentage Allocation
	Features and Benefits • Professionally Managed • Low cost • Transparency • Tax Efficiency • Liquidity • Diversification	Generally describe the features and benefits of ETFs with a focus on differences compared to conventional mutual funds. Explain that some features may only apply to certain ETFs (e.g. some ETFs may not be diversified).	
	General Risks • Market Risk o Equity Risk o Interest Rate Risk o Currency Risk • Credit Risk • Foreign Investment Risk • Style Risk • Concentration Risk • Counter-party Risk • Tracking Error • Risk that market price differs from NAV	Generally describe, with examples, each risk that can apply to ETFs. Explain in detail the risk of market price. Explain how market price differs from NAV pricing and that market price risk applies to ETFs and not conventional mutual funds.	
	Compare ETFs to: • Conventional Mutual Funds • Closed-End Funds • Exchange -Traded Notes	Provide a summary of key differences and similarities between ETFs and Conventional Mutual Funds, Closed-End Funds, and Exchange -Traded Notes.	
Exchange Trading	Introduction to Financial Markets • Describe Primary Market • Describe Secondary Markets* o Auction Markets o Dealer (Over-The-Counter) Markets	Define the terms “Primary Market” and “Secondary Market”. Describe in detail the various Secondary Markets focusing on the markets where ETFs will be traded. Details should include type of markets, market hours and any specific trading rules and requirements.	40
	Trading on an Exchange • ETF Pricing o Market pricing ▪ Continuous during market open hours o NAV pricing ▪ End of day calculation ▪ Daily, Weekly, Monthly o Risk that market price differs from NAV	Explain that ETFs have both a market price and a NAV calculation. Explain the difference between calculating a NAV and market price. Explain that ETFs may not trade at their NAV.	

General Topic	Sub-Topics	Comment	Percentage Allocation
	• Quotes system o What is a Bid? o What is an Ask? o Bid/Ask Spread o Last Trade Price o Market Open/Market Close Price	Define the terms "Bid", "Ask" and the "Bid/Ask spread". Explain in detail how to properly quote an ETF. Define the terms "Last Trade Price", "Market Open" and "Market Close".	
	• Market Depth and Liquidity o What is a Board Lot/Odd Lot? o Define Market Depth o Liquidity o Role of Market Makers	Define terms "Board Lot", "Odd Lot", "Market Depth". Explain liquidity and the role of Market Makers for exchange traded securities.	
	• Distributions o Define the term "ex-distribution" o Describe distribution re-investment plans	Define the term "ex-distribution" and explain what it means for trading purposes. Describe distribution re-investment plans for ETFs.	
	• UMIR Rules • Trading Halts • Circuit Breakers	Provide an overview of UMIR Rules and who has to follow them. Explain trading halts and circuit breakers including their purpose and when they are triggered.	
	Order Instructions • Types of orders (Market, Limit, Stop Limit etc.) o Order Documentation o Risks and benefits of each order type o Best practices for order entry (e.g. in cases of buying or selling large number of shares)	Describe the various types of orders including the information required for each order as well as the risks and benefits. Describe situations where certain order types may be better than others.	

General Topic	Sub-Topics	Comment	Percentage Allocation

	Order Entry
	• Order Processing
	  ○ Best Execution
	  ○ Exchange rules for placement and execution
	  ○ Changing Trade Instructions
	  ○ Cancelling Trade Instructions
	  ○ Trade Settlement
	  ○ Confirmations
	  ○ Transaction costs
	  ○ Trading as Principal vs. Agent
		Describe how orders must be processed on exchanges including best execution requirements (e.g. immediate execution), exchange rules, and how orders are filled.
		Describe how to change and cancel open orders.
		Discuss settlement, confirmations and costs.
		Briefly explain trading as Principal vs. Agent.	

Investing in ETFs	Review existing obligations for: • Know-Your-Client • Know-Your-Product • Suitability Obligation	Explain that existing obligations for KYC, KYP and suitability apply to the sale of ETFs. Explain that not all ETFs provide the same level of information as conventional mutual funds, such as risk rating, and that this information would have to be assessed by the Member in order to satisfy existing obligations.	15
	Portfolio Management • Alpha and Beta • Efficient Market Hypothesis • Describe different investment strategies for ETFs	Briefly explain the concepts of Alpha, Beta and Efficient Market Hypothesis. Describe in detail the roles an ETF can fill when constructing a portfolio.	

	Review the following and how they apply to ETFs:
	• Splits and Consolidations
	• PACs, SWPs
	• DRIPs
	• Taxation
	  ○ Income
	  ○ Capital Gains and Losses
	  ○ Dispositions
	• Custody
	  ○ Nominee name (“street form”) vs. client name
		Review these common topics with a focus on how they are applicable to trading in ETFs.
		Describe in detail nominee name account records, including a comparison of how they differ from client name account records.	

**Additional resource materials, that provide more detail on different trading exchanges and common market indices, may be helpful for Approved Persons.*

17 RULE 900 – CONTINUING EDUCATION ("CE") REQUIREMENTS

Purpose

~~MFDA~~ Rule 1.2.6 prescribes continuing education requirements for Approved Persons of ~~MFDA~~ Members. The purpose of this ~~Policy~~ Rule is to establish minimum requirements for compliance with provisions under the Rule.

Definitions

(For the purposes of this ~~Policy~~Rule)

"date of participation" means the date upon which an Approved Person was registered under securities legislation, or designated by a Member under ~~MFDA~~ Rules, in one or more categories set out under ~~MFDA~~ Rule 1.2.6(b) and (c).

"Filer" means any Approved Person, Member, individual, or entity authorized by the Corporation to file CE credit completion reports with the Corporation on behalf of Approved Persons and Members.

"~~MFDA~~ CE reporting and tracking system" or ~~MFDA~~ CERTS means the online system established ~~by the MFDA~~ for the purpose of administering the ~~MFDA~~ CE program.

"Participant" means any Approved Person who is registered, during a cycle, as a dealing representative, chief compliance officer or ultimate designated person under Canadian securities legislation, or designated by the Member as a branch manager or alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ Rules.

"Provider" means any individual or entity offering a continuing education activity.

GENERAL CE CREDIT REQUIREMENTS

~~MFDA~~ Rule 1.2.6 (b) requires every Approved Person who is registered as a dealing representative under Canadian securities legislation to complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 ~~MFDA~~ Compliance Credits each cycle.

~~MFDA~~ Rule 1.2.6 (c) requires Approved Persons who are not registered as a dealing representative, but are registered as a chief compliance officer or ultimate designated person under Canadian securities legislation, or designated by the Member as a branch manager or alternate branch manager, or alternate chief compliance officer under ~~MFDA~~ Rules, to complete 8 Business Conduct Credits and 2 ~~MFDA~~ Compliance Credits each cycle.

PART A

PRO-RATION OF CREDITS

Rule 1.2.6(d) addresses the application of CE requirements for a partial cycle. This section sets out details regarding the application of CE requirements for new and returning Participants, and where there is a change in participation for a Participant.

1. New Participants.

1.1. Requirements under Rule 1.2.6(b) or (c) do not apply to a Participant where their initial date of participation falls within the 23rd or 24th month of the cycle.

1.2. A Participant, who is in their first cycle, must satisfy the requirements for each CE component under Rule 1.2.6(b) and (c) 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:

$$\textbf{Total Number of Component Credits Required} = A \times \frac{B}{24}$$

where

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

2. Returning Participants.

2.1. A returning Participant who has been previously registered under securities legislation as a dealing representative, chief compliance officer or ultimate designated person, or has been previously designated by a Member under ~~MFDA~~ Rules as a branch manager, alternate branch manager or alternate chief compliance officer:

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

(b) is not required to satisfy the requirements under Rule 1.2.6(b) and (c) in the current cycle, if, as a returning Participant, their date of participation falls within the 23rd or 24th month of the cycle;

(c) must satisfy, on a pro-rata basis, the requirements for each CE component under Rule 1.2.6(b) and (c) for the current cycle, using the formula set out in section 1.2 above, provided that their date of participation falls within months 1 to 22 of the current cycle.

3. Change in Participation.

3.1 During the course of a cycle, there may be changes to a Participant's categories of registration under securities legislation, or to their designated categories under ~~MFDA~~ the Rules. As a result of such changes, the Participant may become subject to CE 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 CE component for the cycle:

$$\textbf{Total Number of Component Credits Required} = \textbf{A} \times \frac{\textbf{C}}{\textbf{24}}$$

where

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

3.2 Notwithstanding the provisions under 3.1, a Participant is not required to satisfy the requirements for any CE component under Rule 1.2.6(b) or (c) 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

LEAVES OF ABSENCE

4. Leaves

4.1. ~~MFDA~~ Rule 1.2.6(e) permits a Member to reduce the CE credit requirements applicable to a Participant under Rule 1.2.6(b) or (c) in circumstances where the Participant was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person due to:

(a) Pregnancy or parental leave;

(b) Personal emergency leave;

(c) Family caregiver or medical leave;

(d) Personal illness or injury;

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

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

4.2. In order to reduce the number of CE credit requirements, the chief compliance officer, or their delegate, must:

(a) approve the reduction in the number of credits;

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

(i) how the calculation of the reduction in credits was determined;

(ii) the nature of the absence; and

(c) notify the Corporation of the reduction in the number of 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.

4.3. A reduction in credits must be calculated using the formula outlined under 1.2 above.

PART C

COMPONENT CONTENT

This section sets out minimum standards for continuing education content. These standards should be considered in the context of what is reasonable based on the Participant's roles and responsibilities and the Member's operations. Members should have procedures for identifying appropriate training topic areas for their Participants.

5. Business Conduct.

5.1. Business Conduct content is educational material that promotes, directs and guides ethical and compliant conduct. It includes education regarding ethical issues, ~~MFDA~~ Rules ~~and Policies~~, other applicable legislation, and Member's policies and procedures for complying with regulatory requirements.

5.2. A single Business Conduct Credit consists of 1 hour of training in at least one of the following topic areas:

(a) Ethics;

(b) ~~MFDA~~ Rules ~~and Policies~~ and Member policies and procedures for complying with the Rules ~~and Policies~~; and

(c) Relevant legislation and its application.

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

5.4. 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 Member, including the principles under Rule 2.1.1. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

5.5. Other business conduct topics include, but are not limited to:

(a) Conflicts of interests;

(b) Personal financial dealings;

(c) Regulatory requirements and initiatives that affect Member operations;

(d) Disclosure of information to clients;

(e) Documentation standards;

(f) Know-Your-Client;

(g) Suitability and new products;

(h) Know-Your-Product;

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

(j) Security and privacy of information; and

(k) Complaint handling.

6. Professional Development.

6.1. Professional Development content is educational material that maintains or enhances a Participant's financial knowledge or proficiency.

6.2. A single Professional Development Credit consists of 1 hour of training in at least one of the following topic areas:

(a) Products;

(b) Financial planning;

(c) Retirement planning;

(d) Investment strategies and asset allocation;

(e) Client management techniques;

(f) Economics, Accounting, and Finance;

(g) Tax planning;

(h) Estate planning; and

(i) Insurance.

7. ~~MFDA~~ Compliance.

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

7.2. The two ~~MFDA~~ Compliance Credits must be obtained by completing continuing education activities specifically designated by the Corporation.

PART D

DELIVERY STANDARD

8.1. Members may provide required content through their own training initiatives or through third parties.

8.2. For a CE activity to qualify under this ~~Policy~~Rule and Rule 1.2.6, it must be a structured activity where attendance is tracked, the CE content is accredited, and, as applicable, delivery of the CE content and evidence of completion has been documented.

PART E

ACCREDITATION

9.1. Accreditation of a continuing education activity is required prior to the CE credits being eligible for reporting on CERTS.

9.2. Accreditation can be completed by:

(a) A~~n~~ Member;

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

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

(d) Investment Industry Regulatory Organization of Canada ("IIROC").

9.3. All accreditations must use standard evaluation procedures based on the following criteria:

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

(b) The content of the CE 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 CE content at the time of accreditation approval; and whether the CE activity has met its learning objectives;

(c) The content of the CE activity meets the related minimum standards set out under Part C of ~~MFDA Policy~~ Rule 900;

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

(e) The CE activity is relevant to the Participant and/or the Member's business;

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

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

(h) Only one CE credit is assigned per one hour of training;

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

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

9.4. For Member self-accreditations, the Member must maintain evidence of the education activity in sufficient detail to evidence compliance with 9.3.

9.5. Each accredited CE activity recognized by the Corporation will be assigned an eligibility period not longer than 2 years from the date of accreditation. When the eligibility period expires or there is a material change to the CE activity that a Member provides and the Member intends to continue to offer the CE activity, the Member must either re-perform self-accreditation or obtain accreditation from accreditors recognized by the Corporation. A material change, for the purposes of 9.5, will have occurred when one or more of the CE categories or content is no longer covered, the duration of the CE activity has changed, or testing of the CE activity has been removed. A material change may also occur when the format, delivery method or content has changed.

PART F

EVIDENCE OF COMPLETION

10.1. Evidence of completion for CE credits, as required under Rule 1.2.6, may be in the form of supporting documentation issued by the Provider, including certificates/other notices of completion, attendance records, or test results.

10.2. Members and Participants are not required to maintain evidence of completion for CE credits, where a Provider: (i) facilitates the delivery of accredited CE content, which meets the requirements under ~~MFDA~~ Rule 1.2.6 and ~~Policy~~ Rule 900; (ii) maintains records related to the completion of CE credits by Participants; and (iii) submits such records to the Corporation on behalf of such Participants, in accordance with the requirements under ~~Policy~~ Rule 900.

PART G

REPORTING

11.1. Members and Participants must use ~~MFDA~~ CERTS to comply with the reporting obligations of ~~MFDA Policy~~ Rule 900.

11.2. Only CE credits obtained during the assigned eligibility period may be used to satisfy the requirements under Rule 1.2.6. Credits obtained during any cycle may only be used to satisfy the prescribed credit requirements for that cycle or a previous cycle where a Participant has outstanding requirements from that previous cycle.

11.3. twithstanding the provisions of 11.2, Participants may carry forward to the next cycle a maximum of 5 excess Professional Development Credits.

11.4. Members and Participants must file reports of completed CE credits, and must ensure, where applicable, that any eligible third party filing reports of completed CE credits on their behalf files the reports, no later than 10 business days following the end of the cycle.

11.5. Notwithstanding the provisions under 11.4, when a Participant ceases to be an Approved Person of a Member, that Member must file a report of all completed CE credits for that Participant within 30 days.

PART H

ASSESSMENTS

12.1. 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 Member or Participant in respect of the CE credits reported to the Corporation.

12.2. In such instances, the Participant or 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.

12.3. Failure by a Participant or Member to submit adequate evidence to support the continuing education activity delivered and the CE credits reported may result in the rejection by the Corporation of all or some of the reported 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 Rule 1.2.6.

PART I

NON-COMPLIANCE

13. Notification and Fees.

13.1. Where, for any given cycle, the Corporation's records indicate that a Participant has not met the requirements as prescribed under Rule 1.2.6 and ~~Policy~~ Rule 900, the Corporation shall notify the Participant's sponsoring 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 Member where a rejection by the Corporation of reported CE credits has resulted in non-compliance for a Participant.

13.2. Where a Member has been notified of such non-compliance pursuant to paragraph 13.1 above, the 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 Rule 1.2.6 and this Rule.

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

13.4. Where a Member has been notified pursuant to paragraph 13.3 above, the 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 ~~MFDA~~ the Rules.

13.5. Where the Corporation has determined that a Participant has not met the prescribed credit requirements for any given cycle, as prescribed under Rule 1.2.6 and ~~Policy~~ Rule 900, the Corporation may, for each such occurrence, impose a $2,500 fee on the Participant's sponsoring Member.

13.6. Members will have 30 days from the date of notification to pay the fee in full to the Corporation.

14. Reinstatement.

14.1. Where the Corporation has provided notification to a Participant's sponsoring Member pursuant to paragraph 13.3, the Member and Participant may file CE credit reports for that applicable cycle for review by the Corporation.

14.2. Where the Corporation subsequently determines that the Participant has met the prescribed credit requirements for that applicable cycle, notification will be delivered to the Participant's sponsoring Member stating that the Participant is in compliance with the requirements under Rule 1.2.6 and ~~Policy~~ Rule 900.

18 RULE 1000 – DISCLOSURE OF ~~MFDA~~ CORPORATION MEMBERSHIP

INTRODUCTION

This ~~Policy~~ Rule establishes minimum requirements for disclosure of ~~MFDA~~ Membership pursuant to ~~MFDA~~ Corporation Rule 2.13 (Disclosure of ~~MFDA~~ Corporation Membership). The Rule requires Members to include the ~~MFDA~~ Corporation Logo on account statements and on the Member's website. ~~MFDA~~ Members must use the ~~MFDA~~ Corporation Logo prescribed in this ~~Policy~~ Rule to satisfy the ~~MFDA~~ membership disclosure requirements set out in Rule 2.13.

The purpose of Rule 2.13 and this ~~Policy~~ Rule is to promote client awareness of the regulatory oversight exercised by the ~~MFDA~~ Corporation in respect of ~~MFDA~~ Members and their Approved Persons.

DEFINITION OF THE ~~MFDA~~ Corporation LOGO

Pursuant to ~~MFDA~~ Rule 2.13, the ~~MFDA~~ Corporation Logo means the logo prescribed by the Corporation, from time to time, for use by Members. For the purpose of the disclosure requirements prescribed in Rule 2.13, the ~~MFDA~~ Corporation Logo includes the image of the ~~MFDA's~~Corporation's trademark design and the English words "Regulated by ~~Mutual Fund Dealers Association of Canada~~ Corporation" or the French words "Réglementée par ~~Association canadienne des courtiers de fonds mutuels~~".

~~MFDA~~ CORPORATION LOGO ON ACCOUNT STATEMENTS AND ON THE MEMBER'S WEBSITE

Members must include the ~~MFDA~~ Corporation Logo on the front of each account statement that is sent to clients. Members must also include the ~~MFDA~~ Corporation Logo on the Member's website homepage. Where the Member's site or internet presence is part of a combined financial institution group website, the ~~MFDA L~~Corporation Logo must be included on the Member's main page.

In addition, the ~~MFDA~~ Corporation Logo must be followed by the web address of the official website of the ~~MFDA~~ Corporation, which is www.~~mfda.ca~~, on both the account statement and on the Member's website.

For the purposes of complying with Rule 2.13 and this ~~Policy~~Rule Members may determine the size of the ~~MFDA~~ Corporation Logo depending on what would reasonably be considered to be an appropriate size for the individual layout of the account statement or website. However, Members must ensure that the ~~MFDA~~ Corporation Logo is clearly visible and prominently included on the front of the account statement and on the Member's website.

Specifically, the ~~MFDA~~ Corporation Logo that Members are required to include on account statements and on their website is reproduced below:

~~Black and White (English and French)~~

~~Colour (English and French)~~

Formatted Table

PROHIBITIONS ON USE OF THE ~~MFDA~~ Corporation LOGO

A ~~MFDA~~ Member will be prohibited from including the ~~MFDA~~ Corporation Logo on account statements and on its website upon suspension of the Member's membership in the ~~MFDA~~ Corporation or upon the termination of the Member's membership in the ~~MFDA~~ Corporation.