

Rules Bulletin

Request for Comments

DC Rules

25-0080

March 27, 2025

Comments Due By: June 25, 2025

Contact:

Member Regulation Policy

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Rule Consolidation Project – Phase 5

Executive Summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing for comment Phase 5 of its Rule Consolidation Project rule proposals.¹ The Rule Consolidation Project will bring together the two member regulation rule sets currently applicable to investment dealers² and to mutual fund dealers³ into one set of member regulation rules applicable to both categories of CIRO Dealer Members.⁴

The objective of Phase 5 of the Rule Consolidation Project (**Phase 5 Proposed DC Rules**) is to adopt requirements that are common to the IDPC and MFD Rules and have been assessed as having differences deemed to be significant with potential material impacts on stakeholders.⁵

¹ [Rules Bulletin 23-0089](#) published on June 30, 2023, announced the Rule Consolidation Project objectives, principles and roadmap. [Rules Bulletin 23-0147](#), [Rules Bulletin 24-0007](#), [Rules Bulletin 24-0145](#) and [Rules Bulletin 24-0293](#) proposed new rules as part of Phase 1, Phase 2, Phase 3 and Phase 4 of the Rule Consolidation Project, respectively.

² CIRO Dealer Members that are registered as an investment dealer or are registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Investment and Partially Consolidated (**IDPC**) Rules.

³ CIRO Dealer Members that are registered as a mutual fund dealer and not registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Mutual Fund Dealer (**MFD**) Rules.

⁴ Where a CIRO Dealer Member is a participant in one or more of the markets overseen by CIRO they also must comply with the CIRO Universal Market Integrity Rules (**UMIR**). UMIR will not be consolidated with other CIRO Rules as part of this project and will continue as a separate CIRO rule set.

⁵ Important stakeholders that were considered include investors, the public, investment dealers and their Approved Persons and employees, mutual fund dealers and their Approved Persons and employees and CIRO itself.

The Phase 5 Proposed DC Rules involves the adoption of rules relating to:

- outsourcing and service arrangements,
- continuing education,
- reporting and handling of complaints, internal investigations and other reportable matters,
- recordkeeping and client reporting,
- financial solvency,
- client asset use and custody, and
- financing arrangements.

How to Submit Comments

Comments on the Phase 5 Proposed DC Rules should be in writing and delivered by June 25, 2025 (90 days from the publication date of this Bulletin) to:

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
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A copy should also be delivered to the Canadian Securities Administrators (**CSA**):

Trading and Markets
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West Toronto, Ontario M5H 3S8
e-mail: TradingandMarkets@osc.gov.on.ca

and

Capital Markets Regulation
B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2
e-mail: CMRdistributionofSROdocuments@bcsc.bc.ca

Commentators should be aware that a copy of their comment letter will be made publicly available on the CIRO website at www.ciro.ca

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1. Background

One of the initial CIRO priorities is to consolidate the IDPC Rules and MFD Rules into one set of rules, the CIRO Dealer and Consolidated (DC) Rules, applicable to both investment dealers and mutual fund dealers.

The primary objectives of this consolidation work are:

- to achieve greater rule harmonization to:
 - ensure like dealer activities will be regulated in a like manner,
 - minimize regulatory arbitrage between investment dealers and mutual fund dealers,
- where practical and appropriate, adopt less prescriptive, more principles-based rule requirements to facilitate rules that are scalable and proportionate to the different types and sizes of dealer and their respective business models, and
- improve access to and clarity of the rules applicable to all CIRO Dealer Members.

Taking these objectives into consideration, the following decisions have been made relating to the structure and content of the DC Rules:

Matter	Decision
Rule organization structure and numbering approach	Use the IDPC Rule organization structure
Rule drafting convention	Standard rule with, where applicable, alternative compliance approaches to accommodate business model differences
Rule drafting style	Plain language
Rule development and implementation approach	The entire set of DC Rules will be implemented as a whole with an appropriate transition period.

The fifth phase of the Rule Consolidation Project focuses on:

- outsourcing and service arrangements (DC Rule 2400),
- continuing education (DC Rule 2700),
- reporting and handling of complaints, internal investigations and other reportable matters, (DC Rule 3700),
- recordkeeping and client reporting (DC Rule 3800),
- financial solvency (DC Rule 4100, 4200, DC Form 1),
- client asset use and custody (DC Rule 4300, 4400), and
- financing arrangements (DC Rule 4500, 4600).

Rule Series	Title and Description
1000	<i>Interpretation and Principles Rules– provisions relating to:</i> • <i>Definitions of common application throughout the rules – DC Rule 1200</i> ○ <i>Definition of the term “monthly financial report”</i>
2000	<i>Dealer Member Organization and Registration Rules – provisions relating to:</i> • <i>Acceptable Back Office and Service Arrangements – DC Rule 2400</i>

	• Continuing Education Requirements for Approved Persons – DC Rule 2700
3000	Business Conduct and Client Accounts Rules – provisions relating to: • Reporting and Handling of Complaints, Internal Investigations and Other Reportable Matters – DC Rule 3700 • Recordkeeping and Client Reporting – DC Rule 3800
4000	Dealer Member Financial and Operational Rules – provisions relating to: • General Dealer Member Financial Standards – Minimum Capital, Early Warning, Financial Reports and Auditors – DC Rule 4100 • General Dealer Member Financial Standards – Disclosures, Internal Controls, Calculations of Prices and Professional Opinions – DC Rule 4200 • Protection of Client Assets – Segregation, Custody and Client Free Credit Balances – DC Rule 4300 • Protection of Client Assets – Safekeeping Client Assets, Safeguarding Cash and Investment Products, and Insurance – DC Rule 4400 • Financing Arrangements – Repurchase Market Trading Practices – DC Rule 4500 • Financing Arrangements – Cash and Securities Loan, Repurchase Agreement, and Reverse Repurchase Agreement Transactions – DC Rule 4600
5000	Dealer Member Margin Rules – Rules concerning margin requirements
6000	Reserved for future use
7000	Debt Markets and Inter-Dealer Bond Brokers Rules – Rules concerning debt market trading activities and inter-Dealer bond brokers
8000	Procedural Rules - Enforcement – Rules concerning investigations, enforcement proceedings, disciplinary proceedings, hearing committees, and rules of practice and procedure
9000	Procedural Rules - Other – rules concerning compliance examinations, approvals and regulatory supervision, regulatory review procedures, opportunities to be heard, alternative dispute resolution, and CIPF requirements.

2. Phase 5 Proposed DC Rules

This Bulletin describes the Phase 5 Proposed DC Rules where we propose substantive changes to dealer requirements that may have material impacts. Non-material changes to dealer requirements are detailed in the table of concordance and other supporting appendices. The following documents have been included as appendices to this Bulletin to provide details of the Phase 5 Proposed DC Rules:

- a clean copy of the Phase 5 Proposed DC Rules is included as Appendix 1,
- a blackline comparison of the Phase 5 Proposed DC Rules to the equivalent IDPC Rules (or previously proposed DC Rules) is included as Appendix 2,⁶

⁶ A blackline comparison of the Phase 5 Proposed DC Rules to the equivalent MFD Rules has not been included as it was determined - due to the decision to use the existing IDPC Rule approaches to rule organization, numbering and drafting language (i.e., plain language), - that including the comparison would not assist in reviewing the proposed amendments.

- a clean copy of the Proposed DC Form 1 is included as Appendix 3,
- a blackline comparison of the Proposed DC Form 1 to the equivalent IDPC Form 1 is included as Appendix 4,⁷
- a table of concordance comparing:
 - the Phase 5 Proposed DC Rules to any existing equivalent requirements in the IDPC Rules, MFD Rules, and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*
 - and Proposed DC Form 1 to any existing equivalent requirement in IDPC Form 1, and MFD Form 1,
 is included as Appendix 5,
- a table comparing the existing IDPC Rules and MFD Rules complaint handling and reporting regimes with the Phase 5 Proposed DC Rules approach to the proposed definition of “serious misconduct” is included as Appendix 6, and
- an impact analysis of the Phase 5 Proposed DC Rules, as well as a summary of impacts by topic of related requirements, is included as Appendix 7.

In the next sections of this Bulletin, we summarize the key elements of the Phase 5 Proposed DC Rules, which in most cases adopt existing rule provisions from the IDPC Rules, the MFD Rules, or both sets of existing rules. We also discuss how all proposed provisions differ from their corresponding IDPC Rule or MFD Rule provision in the Table of Concordance (Appendix 5).

2.1 Decisions on significant differences with potential material impact to stakeholders

In this section of the Bulletin, we discuss decisions made in Phase 5 of the Rule Consolidation Project on the most significant differences in requirements within the IDPC and MFD Rules.

2.1.1 Additional account services we are proposing to allow mutual fund dealers to offer

As described in the Phase 4 bulletin, it has been decided that CIRO will proceed with the proposal to allow mutual fund dealers the ability to:

- offer margin accounts to clients in some scenarios, provided that certain conditions are met, and
- use client free credit cash balances within their operations.

In the Phase 5 Proposed DC Rules, we have limited these additional account services to Level 4 mutual fund dealers because only these mutual fund dealers offer client investment products in nominee name, which allows the dealer the ability to use the positions in the client account as collateral for margin debts.

The use of free credit cash balances is generally connected to margin lending, since the client free credits are used in the dealer’s operations to finance the client debits. Although a Level 3 mutual fund dealer may hold client cash, we are not proposing to

⁷ A blackline comparison of the Proposed DC Form 1 to the equivalent MFD Form 1 has not been included as it was determined - due to the decision to use the existing IDPC Form 1 approach to schedule organization, that including the comparison would not assist in reviewing the proposed amendments.

extend the ability for these mutual fund dealers to use client free credit cash balances within their operations, given that a Level 3 mutual fund dealer is handling client cash temporarily for purposes of settling client name transactions.

2.1.1.1 Margin Accounts

In the Phase 5 Proposed DC Rules we propose that if a Level 4 mutual fund dealer chooses to offer margin accounts or use client free credits, they must meet financial solvency standards equivalent to those that apply to investment dealers. This proposal allows Level 4 mutual fund dealers to offer more services, provided they comply with these higher standards, ensuring that similar activities are regulated in a like manner. Additionally, this approach also allows Level 4 mutual fund dealers with relatively simpler business models to continue their operations without the burden of meeting higher standards designed for more complex business models.

At the time we published the Phase 2 amendments for public comment, we did not propose to allow mutual fund dealers to offer margin loans to clients (proposed DC Rule 5100), as this possibility was still under consideration by CISO staff. We recently announced when we published the Phase 4 amendments for public comment that we would be proposing to give mutual fund dealers this option.⁸ To codify this option, we have proposed amendments:

- to a number of margin lending-related rule requirements to include Level 4 mutual fund dealers within scope, and
- that establish the conditions under which a Level 4 mutual fund dealer is permitted to offer margin lending.

The proposed conditions are listed in Phase 5 Proposed DC Rule subsection 5112(2) and include required compliance with DC Rule requirements for:

- margin accounts in sections 3245 to 3247,
- the sending of account statements in section 3851,
- minimum capital provisioning in sub-clause 4111(3)(i)(f),
- the filing of the audited annual Form 1 within the timeline specified in sub-clause 4151(1)(i)(a),
- the filing of an agreed-upon procedures report as required under subsection 4190(1),
- the segregation of fully paid and excess margin securities in sections 4310 to 4332,
- the calculation of margin required for client account margin for investment product positions and position offsets in Series 5000,

⁸ Refer to section 2.1 of CISO Rules Bulletin 24-0293 for the details relating to this announcement.

- the reporting of client account cash balances and margin required in Schedule 4 of Form 1, and
- the calculation of the securities concentration charge in Schedules 11, 11A and 11B of Form 1.

2.1.1.2 Use of client free credit cash

We also announced within the Phase 4 amendments consultation document that we would be proposing to allow mutual fund dealers to use client free credit cash balances within their operations. To codify this option, we have proposed amendments:

- to a number of client free credit cash balance-related rule requirements to include Level 4 mutual fund dealers within scope, and
- that establish the conditions under which a Level 4 mutual fund dealer is permitted to use client free credit cash balances.

The proposed conditions are listed in DC Rule subsection 4382(2) and include required compliance with DC Rule requirements for:

- minimum capital provisioning in sub-clause 4111(3)(i)(f), and
- compliance with client free credit cash usage and segregating excess free credit cash balances in Rule 4300, Part C and Statement F and Schedule 2 of Form 1.

2.1.1.3 Process to be followed to expand services

A mutual fund dealer that chooses to expand their services will be required to notify CIRO in writing before making such material change to its business activities pursuant to DC Rule subsection 2246(2). CIRO will review the request to ensure the dealer has the appropriate systems, controls and capital to offer margin accounts (or use free credits) and meet the associated rule requirements.

As is the case with all other Phase 5 Proposed DC Rules, these proposed expansions to the account services that can be offered by mutual fund dealers are subject to CSA review and approval. Further, should we receive a significant number of material comments on these proposed expansions that suggest that pursuing them will be highly controversial, we may decide to pursue them as separate proposals to not delay the completion of the Rule Consolidation Project.

2.1.2 Account types that cannot be offered by mutual fund dealers

As discussed in the Phase 4 amendment consultation document, it has been determined that CIRO will not proceed with the proposals of allowing mutual fund dealers the ability to offer discretionary accounts, managed accounts or order execution only accounts as part of the Rule Consolidation Project. Any such proposals would be developed in consultation with the CSA as part of a separate

policy project with a separate timeline. To reflect this decision within the proposed Phase 5 Proposed DC Rules, we have added a provision to provide additional clarity on the accounts and services a mutual fund dealer is prohibited from offering. (previously published as part of the proposed Phase 1 amendments). (**DC Rule subsection 1102(4)**)

2.1.3 Financial solvency reporting

One of the material differences in the existing IDPC Rules and MFD Rules is that both sets of rules prescribe the regular completion and submission of different dealer financial solvency reports, both of which are identified as Form 1. Both forms include different sets of calculations designed to determine the Dealer Member's risk adjusted capital.

To ensure consistency and reduce regulatory arbitrage, we propose one consolidated financial solvency report (**DC Form 1**) which applies the same formula for calculating risk adjusted capital to both mutual fund dealers and investment dealers. We maintain some differences within the formula, such as the minimum capital requirements. We also propose separate lines and schedules for reporting requirements that are unique to either investment dealers or mutual fund dealers.

Since we propose adopting the IDPC Form 1 risk adjusted capital formula, this may have a significant impact on certain mutual fund dealers. As a result, we propose a phased implementation approach for those components of the formula expected to have the most significant impact.

We recognize that several statements and schedules may not apply to dealers with limited or simple business activities. Therefore, we plan to customize the regulatory filing system to reduce input fields to those relevant to each dealer's business.

More details on the proposed DC Form 1 are described in section 2.11 of this Bulletin.

2.2 Rule interpretation and definitions of common application throughout the rules (*DC Rules 1100 and 1200*)

In Phase 5 Proposed DC Rules, we propose revisiting DC Rule 1100 and DC Rule subsection 1201 with the scope of adding new definitions or amending several interim definitions proposed in Phase 1.⁹

2.2.1 Mutual fund dealer business structures

We propose to adopt MFD Rule 1.1.1 with regard to certain Approved Persons of mutual fund dealers engaging in securities related business as an employee of a

⁹ In Phase 1 we identified material differences that required further consideration as part of future phases of the Rule Consolidation Project. As such, at that time we proposed interim definitions, where applicable, which may need revisiting once a decision was made on the material differences in future phases. See section 2 of Rules Bulletin 23-0147.

chartered bank or credit union, where permitted by applicable legislation. (*DC Rule subsection 1102(5)*)

2.2.2 “Monthly financial report” definition

We propose introducing a definition for the term “monthly financial report” in the DC Rules. This definition clarifies that the financial report submitted to CIRO on a monthly basis does not include all the statements and schedules in the Form 1 report. The DC Form 1 general notes and definitions specify which statements and schedules must be submitted for the monthly financial report.

2.2.3 Amended terms and definitions

2.2.3.1 Amended terms from previous phases

We propose amending the definitions of “market value” and “introducing broker” that were published in Phase 1, to better reflect subsequent developments in the Rule Consolidation Project and remove any inconsistencies and redundancies. We have not carried forward the market value definition from the IDPC Form 1 to the DC Form 1, since this definition is included in the section 1201 definitions that apply throughout the CIRO requirements.

2.2.3.2 Form 1 terms and definitions

We propose to adopt the IDPC Form 1 approach to measuring financial solvency including assessing custody and credit risk as this approach provides a more rigorous and comprehensive assessment of risks. In Phase 1 we proposed interim terms and definitions in the DC Rules that were relevant in the context of a separate Investment Dealer Form 1 and Mutual Fund Dealer Form 1. Since we are proposing one consolidated Form 1 in Phase 5 Proposed DC Rules, conforming amendments to the following terms are necessary:

- acceptable clearing corporation,
- acceptable counterparty,
- acceptable exchange,
- acceptable institution,
- acceptable securities location,
- designated rating organization,
- early warning excess,
- early warning reserve,
- regulated entity,
- risk adjusted capital, and
- total margin required.

2.2.4 Repealed terms

In Phase 1 we expanded or introduced interim terms and definitions in the DC Rules that were relevant in the context of a separate Investment Dealer Form 1 and Mutual Fund Dealer Form 1 but are no longer relevant in the context of the proposed consolidated Form 1. As such, we propose repealing the following terms from the DC Rules:

- Acceptable entity,
- Investment Dealer Form 1, and
- Mutual Fund Dealer Form 1.

2.3 Acceptable back-office and service arrangements (DC Rule 2400)

In this section of the Bulletin, we discuss the proposed requirements relating to:

- Introducing broker/carrying broker arrangements (**IB/CB arrangements**),
- Other outsourcing and back-office arrangements, and
- Service arrangements.

2.3.1 Introducing broker/carrying broker arrangements

We propose adopting the IDPC Rule requirements for the existing Type 1 to 4 IB/CB arrangements. We also propose adopting the majority of the MFD Rule requirements for introducing and carrying arrangements between two mutual fund dealers. Given the complexity of various business models and the potential for diverse arrangements between investment dealers and mutual fund dealers, we propose giving CISO staff the ability to grant exemptive relief from the requirements pertaining to IB/CB arrangements. Below we discuss each such proposal in more detail.

2.3.1.1 Type 5 IB/CB arrangements

We propose labelling IB/CB arrangements between two mutual fund dealers as Type 5 IB/CB arrangements. (**DC Rule section 2430**)

The requirements for these Type 5 arrangements are mainly based on the existing IB/CB arrangement requirements in MFD Rule 1.1.6 and are generally similar to the investment dealer Type 2 IB/CB arrangement requirements. Given these general similarities, we are proposing to further align the Type 5 requirements with the Type 2 requirements by:

- adding a requirement to the Type 5 IB/CB arrangements for the introducing broker to report and margin their own principal positions,
- adding a requirement to the Type 5 IB/CB arrangements for the introducing broker to include all accounts introduced to the carrying broker when calculating client net equity for purposes of insurance requirements,

- modifying the existing MFD Rule requirement, whereby the client is to be considered a client of the carrying broker, to the proposed requirement that the client be considered a client of both the introducing and carrying broker, and
- removing the MFD Rule requirement that the carrying broker has responsibility for reporting and sending statements and confirmations.

We expect the impact on mutual fund dealer introducing brokers of reporting and margining their own principal positions will be minimal as this is generally being done in practice, even though it is not prescribed in the MFD Rules.

We expect mutual fund dealers may have to modify their introducing broker/carrying broker agreements to clarify that clients are considered clients of both the introducing and carrying broker. This modification is consistent with the requirement that compliance with CISO requirements is a joint responsibility between the introducing and carrying brokers.

Under the IDPC Rules for IB/CB arrangements, both the introducing broker and carrying broker are required to include all accounts, introduced to the carrying broker, in the client net equity calculation when determining the amount of insurance coverage required. Under the MFD Rules, only the carrying broker is required to include the introduced accounts when determining the amount of insurance coverage. In harmonizing the insurance requirements for introducing brokers in the DC Rules, for Type 5 IB/CB arrangements we require both the introducing broker and carrying broker to include the accounts introduced to the carrying broker in determining insurance requirements. We expect this requirement to impact Level 3 and 4 mutual fund dealers but not Level 1 or 2 mutual fund dealers as such dealers only introduce accounts where the assets are not held or controlled by the dealer (intermediary accounts). Only assets that are held or controlled by the dealer and owed to the client are included in determining client net equity for insurance requirements.

Client reporting services should be arranged between the two parties to determine which Dealer Member will perform the functions of sending statements and confirmations to clients. While the carrying broker may handle the function of sending a statement or confirmation as part of their client reporting services, both the carrying broker and the introducing brokers are responsible for ensuring the statements and confirmation comply with the rules. This proposal is consistent with CISO's regulatory principles of outsourcing, including those established by its predecessors.

2.3.1.2 Arrangements that may be executed

In the DC Rules, we propose to clarify the type of IB/CB arrangements that may be executed by a mutual fund dealer. We also clarify the types of

additional arrangements that a mutual fund dealer may enter into, if they have an existing Type 5 IB/CB arrangement. **(DC Rule sections 2403 and 2407)**

Under the proposal, a mutual fund dealer that is party to a Type 1 or 2 arrangement with an investment dealer, is restricted from entering into any other IB/CB arrangements unless an exemption is obtained. This is consistent with the existing restriction for an investment dealer that is party to a Type 1 or 2 IB/CB arrangement. The carrying broker under a Type 1 or 2 IB/CB arrangement is financially responsible for the obligations of the introducing broker's clients and must look to the introducing broker for repayment of any loss in the event of default by the introducing broker's clients. Allowing the Type 1 or 2 introducing broker to have another IB/CB arrangement, could create additional risk to the existing carrying broker that losses would not be covered.

We are preserving the ability of a mutual fund dealer to engage in multiple Type 5 arrangements, recognizing that a mutual fund dealer introducing broker often collaborates with several mutual fund dealer carrying brokers. Additionally, since mutual fund dealers under these arrangements are prohibited from offering margin or using free credits, there are no significant financing and margining concerns associated with multiple arrangements.

The Type 5 arrangement requirements have been drafted on the basis that the mutual fund dealer introducing broker is not offering margin accounts or using client free credit cash. Should the mutual fund dealer introducing broker decide to offer margin accounts while maintaining a Type 5 arrangement, they will need to request an exemption from the Type 5 arrangement requirements. This exemption would be subject to terms and conditions pertaining to margin requirements.

The proposed restrictions in DC Rule section 2403 and 2407 do not allow a mutual fund dealer to be a carrying broker for an investment dealer because the mutual fund dealer IB/CB arrangement requirements are designed for dealers with simple business models where margin accounts are not offered and products are limited to those investment products that mutual fund dealers can sell. **(DC Rule section 2409)**

2.3.1.3 Exemptions to IB/CB arrangement requirements

We are introducing a new section that will give CIRO staff the ability to grant exemptions from the IB/CB arrangement requirements and impose terms and conditions on those exemptions. Although Type 1 and 2 introducing brokers are restricted from entering into additional IB/CB arrangements or self-clearing, there may be instances where a second arrangement is justified, such as where the introducing broker seeks a secondary arrangement for their futures contract trading business. The

proposed exemption provision provides us with the flexibility to grant exemptions to other conditions and requirements related to IB/CB arrangements that may be necessary as mutual fund dealers begin using investment dealers as carrying brokers or opt to offer margin accounts to clients.

While the carve-out for futures trading was specified in the IDPC Rules, we recognize that there may be other situations beyond futures trading that justify multiple IB/CB arrangements. Consequently, to ensure adequate rule responsiveness, we have not included the specific carve-out for futures business within the DC Rules. Dealers currently engaged in futures business under a secondary arrangement will be required to obtain an exemption under the new DC Rule requirements. **(DC Rule section 2408)**

2.3.2 Other outsourcing and back-office arrangements

We propose adopting the IDPC Rule requirements for other permitted outsourcing and back-office arrangements such as:

- arrangements with a foreign affiliate,
- arrangements with a Canadian financial institution affiliate, and
- clearing arrangements with other dealers.

Both investment dealers and mutual fund dealers will be subject to these requirements should they enter into such arrangements. **(DC Rule 2400 Parts B and C)**

2.3.3 Service arrangements

We propose adopting the requirements for service arrangements that are currently in MFD Rule 1.1.3. We have also clarified that these service arrangement requirements apply regardless of whether the Dealer Member (or Approved Person) is providing or receiving the service. **(DC Rule section 2490)**

We propose introducing a definition for “service arrangements” to provide more clarity on the difference between a service arrangement and other outsourcing arrangements. **(DC Rule subsection 2402(1))**

There are no equivalent requirements for service arrangements in the IDPC Rules for investment dealers, but CISO has published a guidance note on outsourcing arrangements for investment dealers ([Outsourcing arrangements GN-2300-21-003](#)), which includes similar expectations to the requirements proposed in DC Rule 2400.

2.4 Continuing Education Requirements for Approved Persons (DC Rule 2700)

A harmonized approach to the continuing education regime across Dealer Members is currently being pursued in a separate CISO project published on December 19, 2024 in [Rules Bulletin 24-0356](#). As such, for the purposes of the Phase 5 Proposed DC Rules, we propose to adopt and maintain the existing separate continuing education regimes as an interim measure.

This ensures that the industry will only be required to absorb changes for the purpose of harmonization under one project, thus avoiding a duplicative or redundant regulatory burden on Dealer Members.

2.5 Reporting and handling of complaints, internal investigations and other reportable matters (DC Rule 3700)

In this section of the Bulletin, we discuss the proposed requirements relating to:

- reporting requirements set out in DC Rule 3700 Part A (**Reporting Requirements**),
- internal investigation and internal discipline requirements set out in DC Rule 3700 Part B (**Internal Investigation Requirements**),
- client complaint handling requirements set out in DC Rule 3700 Parts D & E (**Complaint Requirements**).¹⁰

In addition to the guiding objectives of the Rule Consolidation Project, the proposed requirements under DC Rule 3700 also aim to:

- make Reporting Requirements, Internal Investigation Requirements, and Complaint Requirements clearer and more consistent with CISO's expectations by using common triggers,
- reduce duplicative reporting to CISO by eliminating overlapping Reporting Requirements between those proposed in the DC Rules and those required under the Universal Market Integrity Rules (UMIR), and
- enhance our Complaint Requirements by codifying client complaint handling best practices which will help us to:
 - anticipate client complaints and inquiries made to CISO, and respond to them efficiently,
 - better assess each Dealer Member's risk, to inform the frequency and content of our compliance examinations, and
 - protect capital markets from harmful conduct.

We anticipate the impact of DC Rule 3700 to vary based on Dealer Members' existing complaint practices. For some Dealer Members, these changes may result in an increase in the number of complaints they investigate and respond to. For others, who currently may be reporting and investigating matters more broadly than those specifically included in the existing Rules, these changes may result in a more limited impact on their existing practices.

In the next section of this Bulletin, we summarize the key elements of the proposed requirements.

2.5.1 Definitions (DC Rule subsection 3702(1))

¹⁰ Phase 5 Proposed DC Rule 3700 includes proposed changes to the existing language in IDPC Rule 3700 that were initially proposed in the IROC Rules Notice and Request for Comment 22-0009 Proposed Amendments respecting Reporting, Internal Investigation and Client Complaint Requirements (Rule Enhancements).

Defined terms provide consistency and clarity throughout this Rule so that reporting, investigations, and complaint handling are handled consistently across Dealer Members and are aligned with CISO's expectations regarding the types of matters in scope under these proposed requirements.

We propose to adopt the following pre-existing definitions under DC Rule 3700:

- “compensation”, from the MFD Rules, and
- “cybersecurity incident”, from the IDPC Rules.

We propose to introduce new definitions, or made material changes to the existing definitions, for the following terms:

- “approved ombudsman service”,
- “complaint” (which reflects the feedback received pursuant to the Rule Enhancements consultation and includes both verbal and written complaints),
- “internal dispute resolution service”, and
- “non-reportable complaint” (which replaces the pre-existing concept of a “service complaint” from the IDPC Rules and MFD Rules).

2.5.1.1 “Serious misconduct” and “serious client-related misconduct”

The existing IDPC Rules and MFD Rules identify a number of specific matters that are directly related to Approved Persons' activities that must be reported to the Dealer and to CISO. These matters are mostly, but not exactly, consistent between the IDPC Rules and MFD Rules.

We propose to introduce a definition of “serious misconduct” that will apply to both Approved Persons and employees, and contain a non-exhaustive list of reportable matters. The reportable matters include those that were listed in IDPC Rule section 3706 and subsection 3721(2) (now proposed DC Rule section 3720 and section 3751), as well as certain reportable matters contained in the MFD Rule 600 (4)-(6). We believe the matters reflected in the proposed definition of “serious misconduct” are examples of issues that present a reasonable risk of material harm to clients or the capital markets.

We also propose to include a principles-based element of the definition that is intended to capture matters that may not be specifically enumerated within the definition, but may present:

- a reasonable risk of material harm to clients or the capital markets, or
- material non-compliance with CISO's requirements,¹¹ securities laws or any other applicable laws.

¹¹ Under subsection 1201(2), we include UMIR in the definition of “Corporation requirements”.

In addition, we propose to introduce a definition of “serious client-related misconduct”. This definition is used in situations where CRO is specifically concerned about serious misconduct that may have an effect on clients.

In Appendix 6 of this Bulletin, we:

- list the types of misconduct that are captured under the current Reporting Requirements and Complaint Requirements in the IDPC Rules and the MFD Rules, and
- clarify which types of misconduct have been included in the proposed DC Rules under the definition of “serious misconduct”.

2.5.2 Reporting Requirements (*DC Rule Part A – sections 3710-3712*)

The existing IDPC Rules and MFD Rules relating to Reporting Requirements are prescriptive and share similarities but are not completely aligned in terms of which matters are reportable to the applicable regulator.

This has led to inconsistencies and gaps in reporting relating to matters where there may be a risk of material harm to clients or the capital markets, or where there is material non-compliance with CRO requirements, securities laws, or other applicable laws.

To address these inconsistencies, we have made a number of changes to the Reporting Requirements, which include:

- the introduction of the defined term “serious misconduct”, as described above, and the corresponding requirements to report instances and complaints alleging such conduct, and
- extending the Reporting Requirements, which previously applied only to Approved Persons, to now apply to employees of the Dealer Member.

As a result, Dealer Members will be required to establish policies and procedures that require employees to report to the Dealer Member the matters set out in Proposed DC Rule subsection 3710(2), specifically in respect of *such* matters occurring while they were engaging in Dealer Member related activities, while employed by the Dealer Member. Dealer Members will also be required to report such matters to CRO, as specified in proposed DC Rule clause 3711(1)(v)).

We believe that taking a prescriptive approach, namely by specifying which matters are captured under the Reporting Requirements, will better enable Dealer Members to quickly and consistently identify matters that must be reported to CRO. This may even decrease the overall amount of reporting by clarifying the types of matters that are not considered reportable.

2.5.2.1 Reporting to the Dealer Member (*DC Rule section 3710*)

In addition to requiring the reporting of serious misconduct, we also propose to adopt the requirements set out in the MFD Rules which state that Approved Persons (and now also employees, given that this requirement has

been extended to employees under section 3711 of the Proposed DC Rules) must report certain matters pertaining to said individual, including:

- cancellation, suspension, or the addition of terms and conditions to a registration or license by any regulatory organization, SRO, professional licensing, credentialing or registration body,
- declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent, or
- outstanding garnishments rendered against the individual. **(DC Rule clauses 3710(1)(v) and 3711(1)(iv))**

2.5.2.2 Reporting by a Dealer Member to the CRO (DC Rule section 3711)

The matters that Dealer Members are required to report to CRO under proposed DC Rule section 3711 are generally consistent with the changes described above that apply to DC Rule section 3710. Some differences exist, as we took into account that upon investigation, Dealer Members may determine that certain matters reported by the Approved Person or employee, such as complaints, or civil actions, do not meet the threshold of “serious misconduct” and consequently do not require reporting to CRO.

We also propose a new requirement for Dealer Members to report any substantial compensation paid to a client. We expect Dealer Members will use their professional judgment in determining what substantial compensation means, considering their business practices and the client’s circumstances. This new requirement replaces, and takes a less prescriptive approach than, the existing requirements under the MFD Rules and IDPC Rules that set specific dollar amount thresholds for reporting. **(DC Rule clause 3711(1)(iii))**

We propose to update the reporting requirements to remove the dollar thresholds for reporting internal disciplinary actions, and require Dealer Members report to CRO, any disciplinary action they take against an Approved Person or employee involving allegations of serious misconduct. **(DC Rule clause 3711(3)(ii))**

We propose to adopt MFD Rule 600 (7.1) that requires Dealer Members to report the outcomes of client complaints alleging serious misconduct. There is no specific provision in the IDPC Rules requiring Dealer Members to report client complaint outcomes. We believe such reporting provides important information related to investor protection, compliance tracking and governance. **(DC Rule clause 3711(3)(iii))**

We propose to adopt the existing requirement under the IDPC Rules that Dealer Members report any cybersecurity incident to CRO. There is no current MFD Rule that deals with cybersecurity reporting. **(DC Rule subsection 3712(1))**

We propose to add a provision similar to the MFD Rules¹² which require Dealer Members to report any material breach of client information. Given that breaches of personal information can have significant negative consequences for investors, and frequently occur outside the context of a reportable cybersecurity incident, we believe a distinct reporting requirement is necessary to ensure such issues are tracked and addressed. To manage regulatory burden, we propose to only require reporting to CIRO for incidents that are reportable under applicable privacy legislation, in the form and in compliance with the timelines required by such legislation. **(DC Rule subsection 3712(2))**

2.5.2.3 Supporting documentation and record keeping (DC Rule section 3804)

The IDPC Rules require that a Dealer Member must make its records available to the *Corporation* upon request.¹³

[MR0162](#) and [IIROC Notice 11-0142](#) outline the types of supporting documents we may expect Dealer Members to provide CIRO for each reportable event. However, the existing IDPC Rules do not explicitly capture this supporting documentation as part of the general requirements to maintain records. As such, we propose to introduce DC Rule clause 3804(1)(xxi) to clarify that Dealer Members must maintain current records relating to reportable matters under proposed DC Rule subsections 3711-3712, and that these records are now explicitly captured under the requirement to provide such records to CIRO upon request. This requirement is consistent with the existing requirement under the MFD Rules.¹⁴ **(DC Rule clause 3804(1)(xxi))**

2.5.3 Internal Investigations and Internal Discipline

The current triggers for an internal investigation in the IDPC Rules and MFD Rules are not consistent and do not align with the proposed definition of “serious misconduct.” We propose to base the trigger for an internal investigation on the concept of serious misconduct. We also propose to extend this section to the conduct of employees.

2.5.3.1 Requirement to commence an internal investigation (DC Rule section 3720)

We propose to adopt the prescriptive approach that is set out in the IDPC Rules, which specifically sets out the triggers for an internal investigation. The proposed approach clarifies that an investigation must be launched when the Dealer Member becomes aware that the Approved Person, former Approved Person or employee appears to have engaged in serious

¹² MFD Rule 600(4.1)(b)(ii) and 600(6.1)(b)(ii).

¹³ IDPC Rule subsection 3804(4).

¹⁴ MFD Rule 300(V) and 300(I)(Complaints)(9)(5).

misconduct. In the case of employees, the serious misconduct or appearance of serious misconduct must have occurred while the employee was in the employ of the Dealer Member and must concern matters that occurred while engaged in Dealer member related activities. **(DC Rule subsections 3720(1) and (2))**

We have opted not to prescribe how Dealer Members should conduct internal investigations. This is a departure from the current prescriptive approach set out in MFD Rule 300(III) (Supervisory Investigations). We intend to provide guidance regarding how to identify situations that require investigation and recommended investigative processes.

2.5.3.2 Records of internal investigation (DC Rule section 3721)

We propose to adopt the existing requirement under the IDPC Rules that Dealer Members must maintain records of an internal investigation, including certain contents that are not currently explicitly required. Such records are not required in the MFD Rules. Given that the trigger for an internal investigation involves serious misconduct, we believe it is important to ensure that the documentation evidencing such investigation forms a complete record for review and compliance purposes. **(DC Rule subsections 3721(1) and DC Rule clause 3804(1)(xxiii))**

2.5.3.3 Exceptions to reporting requirements (DC Rule section 3723)

To prevent duplicative reporting, we propose to introduce a new exception so that the reporting requirements under Rule 3700 do not apply for any matter reported to the CIRO under Universal Market Integrity Rules 10.16, 10.17 and 10.18. **(DC Rule section 3723)**

2.5.4 Settlements and Confidentiality restrictions – Restrictions/Release

Consistent with MFD Rule 300(I)(Complaints)(10), we will also clarify that a Dealer Member must not impose confidentiality or similar restrictions on a client pursuant to a release entered into between the Dealer Member and client, or otherwise. This is intended to ensure that such restrictions are not imposed even in circumstances that do not involve a release.

We also propose to introduce a provision to prohibit Dealer Members from preventing clients, via a release agreement or otherwise, from communicating or sharing information with securities regulatory authorities or other enforcement authorities. **(DC Rule section 3731)**

2.5.5 Client complaints – Institutional clients (DC Rule subsection 3740)

We acknowledge that the relationship between Dealer Members and institutional clients differs from the relationship between Dealer Members and retail clients. The sophistication, knowledge and balance of power in the former relationship merits a

different standard of engagement with institutional clients when dealing with complaints.

The current MFD Rules do not distinguish between retail clients and institutional clients. As such we propose to adopt the IDPC Rule regime, which sets out different standards for institutional client and retail client complaint handling.

2.5.5.1 Complaint policies and procedures (DC Rule subsection 3740)

We propose to adopt the existing IDPC Rule, which outlines the policies and procedures relating to complaints for institutional clients. Consistent with the proposed DC Rules set out above, we also propose to use the proposed term *serious client-related misconduct* as the threshold for requiring a Dealer Member to acknowledge, in writing, a complaint by an institutional client.

We propose that Dealer Members should only be required to acknowledge verbal complaints alleging serious client-related misconduct where a preliminary investigation suggests the allegation may have merit. This differs from the existing requirement, which mandates acknowledgement of all verbal complaints alleging serious client-related misconduct can be handled at the Dealer Member's discretion. Dealer Members are required to investigate to determine if the complaint has merit, and if it does, they must acknowledge the complaint accordingly.

2.5.6 Client complaints – Retail clients (DC Rule sections 3750- 3759)

2.5.6.1 Retail client complaints (DC Rule 3750)

The existing IDPC Rules require a written response to a written complaint alleging misconduct, and to a verbal complaint which alleges misconduct, and where a preliminary investigation indicates it may have merit. The existing MFD Rules require a written response to all written complaints and all other complaints that are not subject to informal resolution.

The definition of *complaint* under the proposed DC Rules removes the distinction between verbal and written complaints. Therefore, in contrast to the existing regimes, we propose to require that Dealer Members provide a written response to any written retail client complaint, and any retail client complaint alleging serious misconduct. We believe this appropriately addresses the types of complaints that raise regulatory concern, while permitting Dealer Members to manage verbal complaints that do not allege serious misconduct in a more expeditious manner. **(DC Rule subsection 3750(3))**

2.5.6.2 Complaint policies and procedures (DC Rule section 3753 and 3740(3))

We propose to remove the requirement in the IDPC Rules that Dealer Members must handle complaints in a balanced manner considering the

interests of the client, Dealer Member, Approved Person and employee. We determined that this is inconsistent with the Dealer Member's and Approved Person's obligation to put the client's interests first when managing conflicts of interest. **(DC Rule sections 3106-3107 described in Phase 4 of the current Rule Consolidation Project)**

2.5.6.3 Response to client complaints (DC Rule 3756)

As set out above, the IDPC Rules and the MFD Rules require that Dealer Members provide a substantive response letter to complainants. We propose to introduce a requirement regarding the information Dealer Members must disclose in that letter; specifically, the response must indicate that clients may report suspected serious misconduct to CIRO, and that CIRO will assess whether any disciplinary action is warranted. **(DC Rule clause 3756(3)(v))**

We propose to adopt the IDPC Rules requirement that Dealer Members provide a substantive response to a client complaint within 90 days. While the MFD Rules do not prescribe a timeline for the substantive response, Companion Policy *Registration Requirements, Exemptions and Ongoing Registrant Obligations*,¹⁵ which applies to securities dealers, recommends that complaints be resolved within 90 days. Therefore, the impact of this change upon Dealer Members should be minimal as the 90-day period is already consistent with best practice and regulatory expectations across the industry.

We note that the Autorité des marchés financiers has adopted a 60-day (+ 30-day flex period) timeline for entities under their jurisdiction to provide a substantive response to a complaint.¹⁶ However, given that the balance of the CSA members recommend a 90-day period as per Companion Policy 31-103, we are proposing to adopt an approach in the proposed DC Rules that is consistent with the general industry practice. In this regard, we have asked a question later in this Bulletin seeking public comment on whether a 90-day time limit to provide a substantive response letter to a complainant is appropriate. We also propose to introduce a limit on a Dealer Member's internal dispute resolution process. The current IDPC Rule does not place a limit on how long a Dealer Member's internal dispute resolution service can take to respond to a client complaint. Effectively, this may allow the complaint resolution process to drag on indefinitely. To ensure that a complaint is resolved within a reasonable time frame, we propose to limit this to a maximum of:

¹⁵ See section 13.15 of the Companion Policy 31-103 CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

¹⁶ See the [Règlement sur le traitement des plaintes et le règlement des différends dans le secteur financier](#).

- 90 days from the date the internal dispute resolution service received the complaint, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the Dealer Member initially received the complaint, or
- 30 days from the date the internal dispute resolution service received the complaint, where the internal dispute resolution service received the complaint after the issuance of the substantive response letter.

Consistent with our proposed complaint handling standards, this will ensure that complaints are resolved more expeditiously. (**DC Rule subsection 3756(5)**)

2.5.6.4 Communication of dispute resolution service options (DC Rule section 3759)

We propose to introduce a provision that addresses the concerns articulated in CIRO Guidance Note [GN-3700-21-003](#). This guidance lists acceptable practices for the communication of internal dispute resolution services and OBSI services from Dealer Members to clients. We propose to include certain acceptable practices for communicating internal dispute resolution services and OBSI services into the proposed DC Rules to clarify and standardize disclosure to clients regarding dispute resolution service options.

In addition, consistent with this guidance, we propose prohibiting the use of any misleading terms, including “ombudsman” or similar terms, in referring to a Dealer Member’s, or its affiliate’s, internal dispute resolution service.

2.6 Recordkeeping and client reporting (DC Rule 3800)

In this section of the Bulletin, we discuss significant proposed amendments to rule requirements relating to:

- recordkeeping, and
- client reporting.

Aspects of the recordkeeping and client reporting requirements, in both the IDPC Rules and MFD Rules, are currently being reviewed under a separate project, known as the Total Cost Reporting Enhancements,¹⁷ with proposed amendments expected to take effect before the implementation of the Rule Consolidation project (**TCR Enhancements**). Given their contextual relevance, we show the TCR Enhancements - in their published version - in the proposed draft of DC Rule 3800 (highlighted in grey). The TCR Enhancements are outside of the scope of this Phase 5 consultation, and therefore we are not seeking comments in this Bulletin.

2.6.1 Scope and approach to Rule 3800

¹⁷ The proposed Total Cost Reporting Enhancements have been published via [CIRO Rules Bulletin 24-0288](#).

We are consolidating under DC Rule 3800 the recordkeeping and client reporting requirements, which are currently outlined in IDPC Rule 3800 and MFD Rule 5. While these two rulesets are largely aligned, particularly at a principles level, notable differences in common requirements still exist. Some of these differences are due to the Dealer model, while most are either legacy differences or drafting variations. Maintaining these differences could lead to diverging practices across the Dealer categories.

We propose aligning all the requirements applicable to investment dealers and mutual fund dealers, apart from the areas discussed in sections 2.6.4.2 and 2.6.4.8 of this Bulletin. The outcome is a consolidated DC Rule 3800 setting out common recordkeeping and reporting requirements that are uniform and which applicability to a specific Dealer depends on the service or product they offer, or deal in, rather than their registration category.¹⁸ This is consistent with the project objective of regulating like activities in like manner while maintaining high standards of investor protection.

In terms of impact, the proposed DC Rules generally represent existing expectations about recordkeeping and client reporting as outlined in various sections of the current rules and guidance notes. Where we propose extending existing rule carveouts from one dealer category to another, we anticipate a reduced burden on the affected Dealer category. In limited instances where we propose bringing a Dealer category to the higher standard of another, the affected Dealer category, or a subset thereof, may have to incur the burden of systems upgrades or enhancements in supervision and compliance.

Our proposal also reflects decisions taken in the preceding phases of the Rule Consolidation, and which have been published for comments, such as to:

- clarify within our rules when a regulatory obligation relates to all “investment product” offerings, or offerings of only certain investment products (such as securities or derivatives or precious metals bullion only),¹⁹ and
- offer mutual fund dealers the option of categorizing clients between “institutional client” and “retail client”, for the purposes of rule applicability respective of each such client category, in alignment with investment dealers.

2.6.2 Definitions (DC Rule section 3802)

¹⁸ DC Rule 3800 requirements are secondary to those in other areas of the rules governing the products and services a Dealer can offer. As such, except when indicated, the proposed DC Rule 3800 requirements are agnostic of whether a Dealer is an investment dealer or mutual fund dealer. Whether a recordkeeping or reporting requirement applies to a Dealer, such as those specific to derivatives products or managed accounts, depends on whether the Dealer is permitted to, and actually engages in, such products or services.

¹⁹ This proposal, including the proposed definition of investment products, has been published for comments via Rules Bulletin 24-0293 Rule Consolidation – Phase 4 (**Phase 4 Bulletin**). Under the new definition, “investment products” means “a product that (i) is a security, (ii) is a derivative, (iii) is a precious metals bullion, or (iv) has been approved by the Board as an investment product”.

We propose adopting the common concepts and definitions across the IDPC Rules and MFD Rules that are already materially aligned. In addition, we propose the following:

- *Automatic plan transactions*: We propose defining automatic plan transactions for the purposes of the proposed exemptions from trade confirmations and month-end account statements, discussed later on in this Bulletin,
- *Client's holdings in Dealer control versus "outside holdings"*: The IDPC Rules distinguish between client's holdings under Dealer control and "outside holdings", as defined in these rules, aligning with National Instrument 31-103. In comparison, the MFD Rules use the concepts of nominee accounts and client name assets, which are comparable but not technically equivalent. Allowing these bifurcations to coexist in the DC Rule 3800 would lead to confusion and inconsistent compliance.

As such, we propose to apply the concept of "outside holding" across investment dealers and mutual fund dealers. This means a mutual fund dealer has recordkeeping and reporting obligations for client holdings under their control and outside their control (i.e. book-entry client name assets) where the dealer is listed as the "dealer of record" in the issuer's books or receives compensation. We believe this to be reflective of the current practice in the mutual fund dealer space, regardless of terminology.

2.6.3 Recordkeeping requirements (DC Rule 3800, Part A)

Both the IDPC Rules and the MFD Rules set out common requirements around the principles and general standards of recordkeeping, which are substantially aligned. They also set out common requirements around the "minimum mandatory records" and "specific records" that Dealers need to maintain to ensure recordkeeping compliance, although the IDPC Rules are more extensive when compared to the MFD Rules.

We propose to consolidate the common generic recordkeeping requirements into a principles-based approach, in line with our overall approach to the proposed DC Rules. For specific records, we propose incorporating the more prescriptive requirements from both sets of existing rules, as clarity in regulatory expectation is particularly valued in recordkeeping. By doing so, we do not believe to have introduced any material recordkeeping requirement on either Dealer category, which they do not already abide by within their business model.

2.6.3.1 General recordkeeping requirements (DC Rule 3800, Part A.1.)

In DC Rule 3800, Part A.1, we propose adopting the general recordkeeping requirements of the IDPC Rules, which are more principles based and aligned with National Instrument 31-103, with common applicability on all Dealers. We propose, however a few changes to the requirements regarding:

- minimum mandatory records (**DC Rule section 3804**), and

- internal controls and access to records (**DC Rule section 3806**),

to further align and clarify the Dealer recordkeeping responsibilities in conformity with existing rule expectations and industry practices.

2.6.3.2 Specific records requirements (DC Rule 3800, Part A.2.)

In DC Rule 3800, Part A.2., we propose harmonizing under the specific (transactional) records requirements of the IDPC Rules. These rules are more inclusive of Dealer models and provide greater prescriptive clarity. We also propose incorporating a few additions from the MFD Rules. More specifically we proposed the following to reconcile the differences between the two rulesets:

- adopt the IDPC Rule provision regarding the general ledger of accounts (**DC Rule section 3811**), which better captures substance over form compared to the corresponding MFD rule provision,
- consistent with the MFD Rules and dealer practices, clarify in the DC Rules the Dealer's obligation to keep:
 - records not only for dividends and interest received by the Dealer, but also those owned and paid to clients (**DC Rule section 3813**), and
 - evidence of having informed the client of fees and charges, (**DC Rule section 3816**)
- extend the applicability of the prescriptive provisions of Part A.2, including DC Rule sections 3813, 3814 and 3821, to mutual fund dealers, relative to their business model.

2.6.4 Client reporting requirements (DC Rule 3800, Part B)

Both the IDPC Rules and the MFD Rules set out common requirements for Dealers to provide clients with prompt trade confirmations, regular transaction and holding statements, as well as annual reports detailing the client's investments performance and fees and charges paid. These requirements further delineate the reporting triggers, frequency of reporting, content of reporting, the format and delivery of reporting, as well as any reporting exemptions. Both rulesets are largely aligned in this area, due to the Client Relationship Model initiatives that predate this consolidation. However, there are legacy differences and drafting variations in the common requirements of both rulesets, which, if retained, could lead to inconsistent practices.

We propose aligning the client reporting requirements common to both Dealer categories, with the exceptions discussed in section 2.6.4.2 and 2.6.4.8 of this Bulletin. We generally adopt the IDPC Rules requirements, which are more inclusive of the spectrum of Dealer activities and embody a higher client protection standard, with modifications to incorporate elements from the MFD Rules. Where justified, we also extend the rule carve-outs available to one Dealer category to the other, thereby leveling the playing field. We believe our proposed approach achieves

requirements that are uniform, efficient and inclusive of the Dealer models and practices, while maintaining client protection and adherence to securities laws.

2.6.4.1. General information (DC Rule section 3850)

We propose introducing a new provision to set out the general information that a Dealer must include in the statements and reports to clients. In this new provision, we incorporated the explicit requirements in the MFD Rule 5.3.2 and existing Dealer practices.

2.6.4.2 Client account statements and outside holding reports (DC Rule sections 3851 and 3852)

Both the IDPC and the MFD Rules require a Dealer to provide frequent information to clients of transactions and other activity in the client's account, as well as information on the client's positions (either under Dealer control or outside holdings, such as book entry client name securities). While there is largely rule alignment in this area, there are a few substantive and operational differences to address. We propose reconciling such differences by adopting the IDPC Rule requirements with the following modifications and clarifications:

- **Reporting obligation:** Dealers must provide clients with:
 - an account statement of client account activity and client positions under Dealer control (**DC Rule section 3851**), and
 - a report of client's outside holdings. (**DC Rule section 3852**)

We clarify that the Dealer has the flexibility to prepare and deliver these statements and reports to clients either:

- as separate documents, or
- combined (but not consolidated) in one statement, provided this format does not mislead a reasonable client regarding client positions under Dealer control and outside of Dealer control, their location, and any applicable investor protection coverage, or lack thereof.

We also reiterate that such statements/reports must be prepared on an account basis. Any consolidation of information for client positions under Dealer control and outside holdings, or for more than one client's account, is only allowed as a supplement to the separate or combined delivery. (**DC Rule subsection 3857(3)**)

This proposal seeks to address the current differences in the operational rules and practices of our Dealers. At present the IDPC Rules require the account statement and outside holding report to be prepared and

delivered separately,²⁰ to prevent consolidation practices and mitigate client confusion. In contrast, the MFD Rules allow combining information in one account statement,²¹ without any emphasis on the distinction between client holdings or the consolidation prohibition. While the provisions of the former overfocus on form, the provision of the latter may enable misleading consolidation practices.

Our proposal offers operational compliance flexibility in consideration of current Dealer operations without compromising the client's interest. While mutual fund dealers who operate with both nominee and client name holdings still need to review their back-office systems for needed adjustments, we anticipate any needed adjustments will not amount to major system changes.

- **Reporting frequency:** Investment dealers will continue to be subject to the daily, monthly and quarterly reporting requirements, under the DC Rules. Similarly, we propose upholding mutual fund dealers, who offer margin accounts, to the same monthly and quarterly reporting requirements as investment dealers (**DC Rule subsections 3851(2)**). Similarly, we propose upholding mutual fund dealers, who offer margin accounts, to the same monthly and quarterly reporting requirements as investment dealers. (**DC Rule subsections 3851(2)**)

In contrast, mutual fund dealers, who do not offer margin accounts, will continue to be subject to the quarterly reporting requirement only (**DC Rule subsections 3851(3) and subsection 3852(1)**). We determined to maintain the status quo for this dealer category for now, considering the significant system changes needed to switch to monthly reporting and the existing carve-out from the securities laws.²² Such exemption from the monthly reporting requirement is limited to the current mutual fund dealer business model and does not extend automatically with the expansion of such model in other products and services in the future.

- **Content of reporting:** Dealers must provide clients with:
 - the opening and closing cash balance in the client account (**DC Rule clause 3851(4)(i)**). This is an existing requirement for Investment Dealers, whereas Mutual Fund Dealers will have to ensure they are disclosing the opening in addition to the closing cash balance, if they are not already doing so.
 - transaction information (**DC Rule clause 3851(4)(ii)**). This is an existing requirement for Mutual Fund Dealers, whereas it may be an

²⁰ IDPC Rule sections 3808 and 3809. See also CISO guidance GN-3800-21-004, *Consolidated statements*.

²¹ MFD Rule sections 5.3.1 and 5.3.2.

²² NI 31-103, section 14.14(2.1.)

enhanced requirement for those Investment Dealers who need to adjust their transaction disclosures to conform with the required transaction details.

- the total market value of all cash and investment positions in the client account with the Dealer (i.e. positions in Dealer control), and the total market value of all outside holding positions, at the beginning and the end of the reporting period (**DC Rule clauses 3851(4)(vi) and 3852(2)(v)**). This is an existing requirement for Mutual Fund Dealers, whereas Investment Dealers will have to ensure they are disclosing the total values at the start in addition to the end of reporting period, if they are not already doing so.
- the *position cost* for each product position presented “on an average cost per unit, or share basis, or on an aggregate basis” (**DC Rule paragraph 3851(4)(v)(a)(i) and subclause 3852(2)(iii)(a)**). We propose to adopt the MFD Rule which is clearer than the corresponding language in the IDPC Rules and more aligned with National Instrument 31-103.
- the applicable Investor Protection Fund coverage, or any other investor protection coverage approved or recognized under securities laws, and where applicable, the lack of such coverage with regards to client holdings (**DC Rule clause 3851(4)(viii) and subsection 3852(4)**). While both Dealer categories already report the IPF coverage, they need to assess whether enhancements to their current disclosures are needed to conform with the proposal (e.g. whether they are already disclosing any other applicable investor protection coverage beyond the IPF, or whether they are adequately disclosing the applicable coverage (or lack of) in connection to the eligible accounts/assets and the coverage policy).

We also propose removing the requirement, currently unique to the IDPC Rules, for a Dealer to report non-arm’s length transactions in the account statements to clients, therefore aligning with the MFD Rules and National Instrument 31-103.²³ This conflict of interest provision predates the Client Focused Reforms, which enhanced the Dealer responsibility of not only disclosing any material conflicts of interests to the client in a timely manner, but also addressing such a conflict in the client’s best interest.²⁴ Furthermore, a Dealer continues to be subject to the existing requirement for disclosing any non-arm’s length transactions in both the relationship

²³ IDPC Rule subsection 3808(9). In contrast, there is no such a disclosure requirement for account statements in the MFD Rules and NI 31-103.

²⁴ IDPC Rule 3100, Part B and MFD Rule section 2.1.4., which we bring forward into DC Rule 3100, Part B.

disclosure package²⁵ and the trade confirmation.²⁶ We believe that the enhanced conflicts of interest requirements combined with the Dealer responsibility for disclosing the conflicts of interest in a timely manner, including at account opening and transaction execution, offers a more balanced, yet impactful, approach for addressing conflicts of interest.

- **Reporting carve-outs:** We propose extending to mutual fund dealers the institutional client reporting carve-outs currently available to investment dealers, whereby a dealer is required to provide only the retail client with the following:
 - quarterly position cost information (*DC Rule clauses 3851(4)(v) and 3851(4)(vii)*), and
 - an outside holding report. (*DC Rule subsection 3852(1)*)

We also propose codifying the exemption from the requirement to provide a client with a monthly account statement, which would otherwise be triggered by automatic plan transaction(s) (*DC Rule clause 3851(2)(ii)*),²⁷ consistent with National Instrument 31-103.²⁸

2.6.4.3 Performance report (*DC Rule section 3853*)

Both the IDPC Rules and the MFD Rules require a Dealer to provide clients with an annual report of their investment performance on an account basis. The two rulesets similarly outline the data elements of the performance reports, and their delivery format (including when to combine or consolidate performance information), with a few exceptions. We propose reconciling these differences between the rules by adopting the IDPC Rule requirements, with the following modifications and clarifications:

- **Reporting obligation:** Under MFD Rule 5.3.4, Dealers can send the first performance report within 24 months after the first client trade or transfer, whereas under the IDPC Rules, Dealers must send the first performance report within 24 months from when the client account is open. We propose adopting the MFD Rule requirement, which is equivalent to the corresponding requirement under National Instrument 31-103 and has minimal impact on Dealers.
- **Content of reporting:** In *DC Rule subclause 3853(2)(iv)(a)* we propose adopting the IDPC Rules formula to calculate the “total market value change since account opening”, because it offers a simpler approach when compared to the two formulas under the MFD Rules. Mutual fund

²⁵ DC Rule section 3216.

²⁶ DC Rule subsection 3855(2)(viii).

²⁷ See the proposed definition of “automatic plan transactions” in DC Rule section 3802.

²⁸ NI 31-103, section. 14.14(2).

dealers must evaluate whether system changes are needed to conform with this proposal.

We also propose adding a provision clarifying that where a Dealer provides clients with a performance report for a period shorter than 12 months, the disclosed information must not be calculated on an annualized basis (**DC Rule subsection 3853(11)**). This requirement is currently stipulated in the MFD Rules and National Instrument 31-103, but not the IDPC Rules. Apart from enhancing rule clarity and preventing misleading disclosures, we believe this proposal does not introduce any new requirement for Investment Dealers.

- **Reporting carve-outs:** We propose extending to mutual fund dealers the institutional client reporting carve-out currently available to investment dealers, whereby a dealer is required to provide a performance report to retail clients only. (**DC Rule subsection 3853(1)**)

2.6.4.4. Report on fees/charges (DC Rule section 3854)

Both the IDPC Rules and the MFD Rules require Dealers to provide clients with an annual report detailing the fees and charges paid by the client, either directly or indirectly, on an account basis. The fee and charge reporting requirements of both rulesets are already largely aligned, including with regards to combining or consolidating the fee information. Similarly, the recent proposed changes to both rules under the parallel Total Cost Reporting Enhancements are significantly aligned. These proposals are shown in our rule proposal (in grey boxes) for context only, as we are consulting on those changes separately.

We propose reconciling the few existing differences between the rules by adopting the IDPC Rule requirements, with the following modifications and clarifications:

- **Reporting obligation:** We propose to clarify that Dealers may exclude the required fees and charges information from the report only if reliable data cannot be obtained (**DC Rule subsection 3854(14)**). This is a change from the corresponding MFD Rule provision, whereby a Mutual Fund Dealer has the option of excluding from the report payments for investments other than securities.²⁹ We believe the MFD Rule approach can lead to arbitrary practices and even misleading reports, especially when information on such products is included in the performance report but excluded in the fee charge report. Because the MFDA has interpreted the concept of “securities” broadly, we anticipate the impact of this proposed provision on Mutual Fund Dealers to be limited.

²⁹ MFD Rule 5.3.3(5).

- **Reporting carve-outs:** We propose extending to mutual fund dealers the institutional client reporting carve-out currently available to investment dealers, whereby a dealer is required to provide a fee/charge report to retail clients only. (*DC Rule subsection 3854(1)*)

2.6.4.5. Transaction confirmations (*DC Rule 3855*)

Both the IDPC Rules and MFD Rules require a Dealer to send prompt trade confirmation to clients; they also outline the information that must be included in the confirmation, its delivery and any applicable exemptions. While such requirements are largely similar, there are a few differences in common requirements which we propose to harmonize. We propose adopting the IDPC Rule with the following modifications and clarifications:

- **Confirmation obligation (*DC Rule subsection 3855(1)*):** Dealers must provide clients with a written confirmation of transactions in “investment products” and other property for the client’s account. We adopt a principles-based language, to better capture the broad spectrum of Dealer activities for which a confirmation must be issued.
- **Confirmation content (*DC Rule subsection 3855(2)*):** We propose reconciling the current differences in both rulesets with regards to the content of the trade confirmation, by:
 - clarifying the minimum information that a Dealer must include in the trade confirmation, (*DC Rule clause 3855(2)(i)*)
 - adopting the IDPC requirements for various product-specific confirmation requirements which are more inclusive of the broader spectrum of Dealer products. (*DC Rule clauses 3855(2)(ii) to (vii)*)

A common requirement of both rulebooks is for the Dealer to disclose in the confirmation whether it is acting as a principal or agent in the transaction. However, there are diverging interpretations in practice between the two rulesets. Under the IDPC Rules, a dealer is acting as a principal when transacting with the client from its own inventory, whereas under the MFD Rules this concept is applied to capture the dealer acting as the “principal distributor” of mutual funds.³⁰ We propose not maintaining the current differences in interpretation, as it would lead to confusion and inconsistent outcomes. For the purposes of the disclosure under *DC Rule* subclause 3855(2)(i)(c), we interpret the term “principal” to capture situations where the Dealer is transacting with the client from its own inventory. In contrast when a Dealer is transacting as a “principal distributor” with the client, we interpret this as acting in an agency capacity. Mutual fund dealers that transact as “principal

³⁰ Such concept is defined in National Instrument 81-102 *Investment Funds*.

distributors” will need to evaluate their systems for necessary adjustments to ensure that this capacity is disclosed in the trade confirmation as “principal distributor” or “agent” but not as “principal”.

- **Confirmation carve-outs (*DC Rule subsections 3855(3) and 3855(4)*):**
We propose adopting the exiting confirmation carve-outs of both rulesets and align - where applicable - for both investment dealers and mutual fund dealers so as to level the playing field, including but not limited to the exemption from providing:
 - a trade confirmation for transactions in a security of a mutual fund where the confirmation is sent by the manager of the mutual fund,
 - a trade confirmation for automatic plan transactions, except for the confirmation for the initial transaction,
 - the required information regarding non-arm’s length transactions in investment products of an issuer, whose name is sufficiently similar to that of a Dealer to indicate a related or affiliated relationship. In addition to harmonizing this exemption, we also propose applying it not only for mutual fund securities (current application), but also for other investment products on the same grounds.

2.6.4.6. Option of earlier date (*DC Rule section 3856*)

We propose adopting the IDPC Rule provision, which emphasizes that the option for using earlier data must be exercised for all clients equally, consistent with the fair dealing standards of both rules.

2.6.4.7. Delivery of documents to clients (*DC Rule section 3857*)

Both the IDPC Rules and the MFD Rules set out requirements for how a Dealer must deliver the required confirmations, reports and other documents to clients. However, there are some variations between the two rulesets, which we propose reconciling by aligning with the IDPC Rule provisions, with the following changes for added operational flexibility and clarity. Under the proposed DC Rules, a Dealer has the option of delivering to clients:

- the outside holdings report separately or combined with the account statement, to the extent it does not result in misleading reports for the client. We also clarify that consolidation is only permitted as a supplement of the separate or combined reports (***DC Rule subsections 3857(2) and 3857(3)***), and
- the performance and fee/charge report either separately from the account statement for the monthly or quarterly period ending on the same date, however within a 10-day period, or combined with such statement (***DC Rule subsection 3857(4)***). This enhanced clarification is

consistent with current Dealer practices, as well as National Instrument 31-103, and does not introduce any new requirement.

In addition to the above, we also propose introducing the requirement for dealers to prepare and deliver the documents required under Rule 3800 to clients in electronic format (e-delivery), in accordance with applicable laws, unless the client requests to receive such document in paper format (**DC Rule subsections 3857(1)**). In essence, the proposed change makes e-delivery the default format of communications with clients, with the client having the right to opt for paper delivery. It reflects the growing prominence of electronic communication in the financial and other sectors in Canada, which was accelerated by the COVID-19 pandemic, and aims to align CRO rules with evolving global practices, regulatory standards and technological advancements. We anticipate such a change to have an overall positive impact in the long term, although in the short-term a subset of dealers may incur costs associated with the transition to the default e-delivery format.

2.6.4.8 Exempt Market Dealers and Scholarship Plan Dealers (DC Rule section 3860)

Mutual fund dealers, also registered as either exempt market dealers or scholarship plan dealers, are subject to some of the reporting requirements of National Instrument 31-103 in addition to CRO requirements. As such we propose to adopt MFD Rule 5.3.6 which sets out the additional reporting responsibility for those mutual fund dealers.

2.7 General dealer member financial standards – minimum capital, early warning, financial reports and auditors (DC Rule 4100)

In this section of the Bulletin, we discuss the proposed amendments to requirements relating to:

- minimum capital levels and related requirements,
- early warning tests and related requirements,
- regulatory financial report filing requirements,
- appointment of auditors and audit requirements, and
- Form 1 and capital formula,

that may represent a significant format or substantive change to either the IDPC Rules or the MFD Rules.

The IDPC Rules in these areas impose requirements and actions to be taken by the CFO or UDP, whereas in the MFD Rules these requirements were drafted as actions to be taken by the Dealer Member or senior management. We have adopted the IDPC Rule drafting to impose actions to be taken by the CFO or UDP to align with the proposed Phase 4 DC Rules that require mutual fund dealers to have a qualified CFO and UDP.

2.7.1 Minimum capital levels and related requirements

Both the IDPC Rules and the MFD Rules require a dealer to maintain a minimum amount of capital in the calculation of risk adjusted capital (**RAC**). The minimum amount for a mutual fund dealer is based on the Dealer's level. The Dealer's level is defined based on whether they hold client cash or securities. We recognize that mutual fund dealers that do not hold client cash or securities have inherently lower risk than dealers that hold client assets. We propose to maintain both the IDPC and MFD minimum capital requirements. We bring forward the mutual fund dealer levels and associated minimum capital requirements in the proposed DC rules and Form 1. The IDPC minimum capital requirements are currently only prescribed in the notes and instructions to Statement B of Form 1. For consistency, these requirements will also be included in the proposed DC Rules in addition to Form 1. **(DC Rule section 4111)**

IDPC Rules require investment dealers to notify CISO if RAC falls below zero or if any of the early warning tests are triggered. MFD Rules only require notification to CISO if RAC is below zero. We propose aligning the requirements to apply for both Dealer types by adopting the IDPC Rule requirements in the proposed consolidated rules. **(DC Rules section 4113)**

Under the existing IDPC Rules, investment dealers are required to calculate their RAC and complete the early warning tests on a weekly basis at a minimum. Under the existing MFD Rules, mutual fund dealers are required to calculate RAC on a monthly basis at a minimum. As explained in section 2.7.2 of this Bulletin, we propose that Level 4 mutual fund dealers be subject to the same early warning tests as investment dealers. To align with the early warning requirements, we also propose that Level 4 mutual fund dealers calculate RAC and complete the early warning tests on the same frequency as investment dealers. We are also proposing to increase the frequency of the RAC calculations for Level 1 to 3 mutual fund dealers from monthly to twice monthly and we propose that early warning tests be completed on the same frequency. The requirement to complete the early warning tests in addition to the RAC calculation will be a new requirement for mutual fund dealers. We recognize the business activity of a Level 1 to 3 mutual fund dealer does not generate significant changes in profits and capital from week to week to justify weekly financial solvency calculations, however neither are monthly calculations sufficient to identify any potential risk adjusted capital deficiencies sufficiently in advance of their occurrence. **(DC Rules section 4115)**

We propose adopting the following IDPC Rule provisions, in the absence of equivalent provisions in the MFD Rules, with applicability on both mutual fund dealers and investment dealers:

- option for well capitalized Dealer Members to apply more stringent capital calculations, **(DC Rule section 4119)**
- requirement that guarantees be a fixed or determinable value. **(DC Rule section 4120)**

2.7.2 Early warning tests and related requirements

The early warning tests and levels differ significantly between the MFD and IDPC Rules. The IDPC Rules provide for several early warning tests and two early warning levels, whereas the MFD rules provide for fewer and simpler early warning tests and one early warning level. We propose adopting a hybrid approach given the difference in risks associated with dealers that hold or control nominee name client assets and those that only engage in book-based client name transactions.

We propose to:

- harmonize the early warning tests and requirements for investment dealers and level 4 mutual fund dealers,
- maintain the existing MFD early warning tests and introduce an additional profitability test for Level 1 to 3 mutual fund dealers, and
- extend the ability for mutual fund dealers to request a hearing panel review for early warning test violation-related restrictions imposed by CIRO.

2.7.2.1 Early warning tests and levels

We propose to retain the IDPC Form 1 early warning framework for investment dealers and bring Level 4 mutual fund dealers to the same standards. We propose aligning the early warning tests, early warning levels and sanctions for both these dealer types since they hold client securities in nominee name which results in a similar risk to clients in the event of insolvency. **(DC Rule subsection 4132(1))**

As a result of this higher standard for Level 4 mutual fund dealers, they will be subject to additional early warning tests and implications if an early warning level 2 designation is triggered. These additional implications include required actions such as filing weekly capital reports and early filing of the monthly financial report.

We propose to retain the MFD Form 1 early warning framework for Level 1-3 mutual fund dealers, since they have a simpler business and do not hold or control client securities. We also propose to enhance the framework by adding a 6-month profitability test for these mutual fund dealers **(DC Rule subsection 4132(2))**. The existing three-month profitability test identifies mutual fund dealers that may be close to triggering a RAC deficiency, but such a test alone does not identify longer term losses that may be steadily eroding RAC. The additional 6-month profitability test would enable CIRO to identify profitability concerns and allow early warning sanctions to be imposed for those Level 1 to 3 mutual fund dealers with a longer and steady history of losses. Other than the new 6-month profitability test and the increased frequency of calculating early warning tests, there are no other new requirements or implications for Level 1-3 mutual fund dealers related to early warning.

Since we are proposing a different early warning testing framework for Level 1 to 3 mutual fund dealers versus other dealer types, we have proposed to include separate early warning schedules in the Form 1 as described in section 2.11.4.3 of this Bulletin.

2.7.2.2 Early warning related requirements

Under existing IDPC and MFD Rules, early warning implications for the dealer and the actions the dealer must take are generally similar for both investment dealers in early warning level 1 and mutual fund dealers in early warning. We are proposing alignment, whereby level 1 to 3 mutual fund dealer early warning tests will be categorized as early warning level 1.

Under the IDPC Rules there are additional actions an investment dealer must take if they have triggered early warning level 2 such as additional filings and a meeting with CIRO. We are not proposing to impose these additional required actions on Level 1-3 mutual fund dealers if they trigger early warning. Rather, we are proposing to adopt these IDPC requirements only for investment dealers and Level 4 mutual fund dealers, in line with the adopted approach for the early warning tests.

2.7.2.3 Reimbursing CIRO for costs

The IDPC Rules allow CIRO to charge a Dealer for costs associated with the administration of early warning situations. The MFD Rules on the other hand are broader and allow CIRO to impose an assessment if the Dealer's financial condition or business issues demanded excessive regulatory attention. We are proposing to adopt the IDPC Rule approach. ***(DC Rule subsection 4133(1) – Reimbursing the Corporation for costs)***

2.7.2.4 Additional restrictions and hearing panel review

Under both rules CIRO can impose sanctions on Dealers, such as prohibitions or restrictions for new branches, hiring or account opening. However, investment dealers, unlike mutual fund dealers, may request a hearing panel review of these CIRO-imposed sanctions. We propose bringing forward CIRO's authority to impose sanctions and the Dealer's right to request a review of such sanctions, with applicability for both investment dealers and mutual fund dealers alike. By offering mutual fund dealers the right for review, we enhance process fairness and level the playing field. ***(DC Rule section 4135 and 4136)***

2.7.3 Regulatory financial report filing requirements

We propose to maintain the existing due dates for financial filings for mutual fund dealers and investment fund dealers, except where a mutual fund dealer chooses to offer margin lending. The deadline for filing the annual audited Form 1 for investment dealers is 7 weeks after year-end whereas the deadline for mutual fund dealers is 90 days after year-end. We have aligned the filing deadline for mutual

fund dealers that choose to offer margin lending with the existing 7 week due date for investment dealers. We are not proposing to shorten the 90 day due date for mutual fund dealers that do not choose to offer margin lending, because smaller dealers, such as Level 1-3 dealers may have challenges obtaining audit services. This approach is consistent with other jurisdictions that allow longer filing periods for members with simple business models. We also propose bringing forward the deadline for filing the monthly financial reports and the Dealer ability to request an extension, subject to a late fee, which are similar between both rules. **(DC Rule sections 4151, 4152 and 4153)**

2.7.4 Appointment of auditors and audit requirements

The most significant difference in audit requirements between the IDPC Rules and MFD Rules is the criteria for qualifying as an auditor to perform the audit of the Dealer Member's year-end regulatory financial report. Under the IDPC Rules, the auditor must be on the approved list of panel auditors. The criteria for this list are not prescriptively outlined in the IDPC Rules but the criteria is set by CIRO and published on our website. The existing IDPC criteria for qualification of a panel auditor is more stringent than the existing MFD criteria. For example, the MFD Rules require that the audit partner acknowledge they have familiarity with the MFD rules whereas the IDPC criteria requires the audit partner to have five years experience and attend the in-depth brokers and investment dealers course at CPA Canada. Given that we are proposing one Form 1, we believe all auditors performing an audit of the Form 1 should have the same educational standards and meet the same approval criteria. We propose to adopt the IDPC Rule requirements and related auditor criteria which will continue to allow CIRO to have the flexibility to update the criteria for approving auditors for both mutual fund and investment dealers. **(DC Rule section 4171)**

By adopting the IDPC criteria for auditors of all Dealer Members, the mutual fund dealer auditors may need to enhance their knowledge or mutual fund dealers may need to switch to an auditor that meets the required criteria. Based on our analysis there are approximately 24 auditors of mutual fund dealers that are not currently on the IDPC panel auditor list and therefore will need to seek panel auditor approval. The majority of these auditors perform audits solely for level 1 to 3 mutual fund dealers. In the questions section we have requested commenters to provide feedback on whether a transitional period is needed for mutual fund dealer auditors to upgrade their education and proficiencies.

We propose to further harmonize the requirements for auditors by:

- adopting the MFD Rule requirement for informing CIRO of any changes in auditors or audit partners **(DC Rule subsection 4172(2))**,
- aligning the prescribed audit procedures for confirmation, reconciliations and other tests **(DC Rule sections 4173 to 4192)**,

- adopting existing filing requirements for the agreed-upon procedures report and clarifying the applicable report for mutual fund dealers that offer margin lending (**DC Rule section 4190**), and
- aligning the audit workpaper record retention requirements with the general Dealer Member record retention requirements. (**DC Rule section 4191**)

As a result of these harmonizations to the audit requirements, investment dealers will be subject to a new requirement to notify CRO of any changes in their auditor. Also, the investment dealer's auditor will be required to retain workpapers for 7 years instead of 6 years. The mutual fund dealer's auditors will benefit from more flexibility in the audit confirmation procedures, which provide the auditor with an option, rather than a mandatory requirement, to send second requests for confirmations.

2.8 General dealer member financial standards - disclosure, internal controls, calculations of prices and professional opinions (DC Rule 4200)

In this section of the Bulletin, we discuss the proposed amendments to requirements relating to general dealer member financial standards that may present a significant format or substantive change to either the IDPC Rules or the MFD Rules.

2.8.1 Financial disclosure to clients (DC Rule 4202-4209)

Under the IDPC Rules, an investment dealer must provide a summary statement of its financial position and a list of current Executives and Directors, to a client upon request. Dealers are also required to notify clients through client disclosures that this information is available upon request. There are no equivalent requirements in the MFD Rules for mutual fund dealers to provide this information to clients.

We propose to adopt these requirements for both investment dealers and mutual fund dealers. We believe that these disclosures are important for clients who wish to perform this due diligence on their Dealer Member.

To align with the separate financial report filing deadlines for investment dealers and mutual fund dealers, as described in section 2.7.3 of this Bulletin, we propose mutual fund dealers prepare the summary statement of financial position within 120 days of their fiscal year-end while we maintain the 75 day requirement for investment dealers. The summary statement can be generated within the electronic regulatory filing system using the Form 1 filing information, which may reduce the burden of this new requirement for mutual fund dealers.

2.8.2 Pricing internal control requirements (DC Rule 4240-4244)

We propose to adopt the IDPC rules for pricing internal control requirements. This includes requirements to ensure consistent and accurate pricing of investment products and verification of the Dealer Member's pricing sources against independent sources.

The pricing internal control requirements will be new requirements for mutual fund dealers as there are no corresponding requirements under the MFD Rules. Mutual

fund dealers may need to enhance their policies and procedures related to pricing to support these new requirements.

2.9 Client asset use and custody (DC Rule 4300, 4400)

In this section of the Bulletin, we discuss the proposed amendments to requirements relating to:

- segregation and related internal controls
- custody and related internal controls
- client free credit balances
- safekeeping, safeguarding and related internal controls
- insurance

that may present a significant format or substantive change to either the IDPC Rules or the MFD Rules.

2.9.1 Segregation and related internal controls

The segregation and related internal controls for both dealer types are generally similar. However, the IDPC Rule segregation requirements are more prescriptive than the MFD Rule requirements given the additional activities undertaken by an investment dealer, including margin lending.

We propose to adopt a modified version of the IDPC Rule segregation requirements that integrates and maintains the core requirements applicable to the investment dealer margin lending model and the mutual fund dealer full segregation model. References to “Mutual Fund Dealer Members” are inserted where the segregation requirements are specific to the mutual fund dealer business model that does not permit margin lending.

For mutual fund dealers that do not offer margin accounts and margin lending to clients, we preserve the core MFD Rule segregation requirements regarding:

- the frequency and review of the bulk segregation calculation (ensure all client investment products are segregated) (**DC Rule subsection 4319(3)**),
- the report of items requiring segregation (minimum monthly) (**DC Rule subsection 4329(2)**), and
- the supervisory review of the segregation report (monthly). (**DC Rule subsection 4332(2)**)

We codified under DC Rule subsection 4319(3) that the determination of the investment products required to be segregated is done daily, which we believe is the current practice.

These changes are meant to integrate the investment dealer and mutual fund dealer segregation models into the DC Rules and are not intended to introduce new requirements for the respective business models in their current form.

2.9.1.1 Investment products requiring segregation

The protection of assets extends to investment products with similar properties that require segregation, custody, safekeeping and safeguarding. The current IDPC and MFD Rules specifically reference segregation requirements for securities, precious metals bullion and other property. We propose to introduce the term “investment product” into the segregation requirements by qualifying that the types of investment products requiring segregation are securities, precious metals bullion and other like assets. Derivatives would not typically be considered a “like asset” requiring segregation.

This does not represent a change from current practice, but clarifies that the scope of the segregation requirements extends beyond securities and precious metals bullion. Following this approach, we would not need to amend the rules in every instance where a new product, similar to a security or commodity, may be recognized by the CISO Board as an investment product.

2.9.2 Custody and related internal controls

The custody and related internal controls for both dealer types are generally similar, including equivalent acceptable securities location qualification requirements for mutual funds.

We propose to adopt the IDPC Rules’ custody and related internal controls, as discussed in section 2.11.3.2 of this Bulletin, which describe potential impacts on mutual fund dealers resulting from acceptable securities location net worth qualification requirements and other custody related requirements that, in the latter case, may positively impact risk adjusted capital.

Another potential impact to mutual fund dealers may result from differences in the requirements for custody agreements since the IDPC Rules require the inclusion of an indemnification clause within the agreement. This requirement is not in the MFD Rules, but the standard custodial agreement prescribed by the MFDA includes an indemnity clause. We expect adopting this requirement will not result in re-papering existing custody agreements, where a standard custodial agreement was used.

By adopting the IDPC requirements for the custody agreements, the mutual funds dealers would also be subject to the requirements for global and foreign locations if they have any foreign locations.

In summary, to the extent there is any net impact to mutual fund dealers, we expect it to be positive. In particular, mutual fund dealers may benefit from reduced margin requirements in scenarios where:

- investment products are custodied at an acceptable securities location without a custodial agreement (**DC Rule section 4366**), and
- mutual funds or evidences of deposit, subject to certain conditions, are not reconciled monthly against the custodian’s records. (**DC Rule section 4367**)

2.9.3 Client free credit balances

We propose to adopt a modified version of the IDPC Rules' client free credit balance requirements that integrates and maintains the core requirements applicable to the IDPC allowable use model and the MFD full cash segregation model. We also propose to allow a Level 4 mutual fund dealer to use client free credit balances in its business, subject to meeting the same client free credit balance and financial solvency requirements as an investment dealer, including:

- \$250,000 minimum capital requirement (**DC Rule clause 4382(2)(i)**), and
- client free credit balance usage limits and excess free credit balance segregation requirements (**DC Rule clause 4382(2)(ii)**)

Both the MFD Rules and IDPC Rules require client cash to be held in an acceptable institution. Under the MFD Rules, an acceptable institution has no minimum net worth threshold requirements and is limited to Canadian financial institutions. Although not explicitly stated in the IDPC Rules, investment dealers that segregate client cash in trust for registered accounts or free credit cash segregation are expected to hold such cash at a Canadian financial institution. This requirement is implied in the IDPC Form 1 Statement A Notes and Instructions that require trust accounts to qualify for Canadian Deposit Insurance Corporation (CDIC) coverage. We propose to adopt the IDPC acceptable institution definition as described in section 2.11.3.1 of this Bulletin, and to codify for all Dealers that client cash held in trust must be held at a Canadian financial institution meeting the acceptable institution definition.

Under the MFD Rules, client cash must be segregated in a trust account at a financial institution and cannot be invested in securities. The IDPC Rules allow the cash that must be segregated to be invested in short term securities with maturity of one year or less such as bonds, T-bills and Canadian bank paper. We propose to maintain the MFD Rule requirement for mutual fund dealers that do not use client free credit balances within their business, who will be required to hold the segregated cash in trust bank accounts.

An investment dealer that uses the free credit client cash in their operations must disclose this fact on the client statement under IDPC Rules which we propose to adopt, but there are no obligations for the dealer to pay interest or provide notice before changing the interest rate. We propose to harmonize the requirements regarding the payment of interest on client cash by withdrawing MFD Rule 3.3.2(e), which requires disclosure whether interest will be paid, the rate, and 60 days written notice prior to any rate revision. While this proposed harmonization will eliminate a required client disclosure, the 60 day prior written notice requirement may have disincentivized competitive rate setting and provides challenges where rates vary based on rates set by Bank of Canada. Investment dealers do not have such a requirement and may set interest rate payments, earning a spread, in response to

market conditions in a timely manner. We believe any negative client impacts will be mitigated by allowing timelier rate setting in response to market conditions.

New requirements that may impact Investment Dealers are detailed below and relate to:

- client free credit segregation deficiencies, and
- notice to financial institutions regarding designated trust accounts.

2.9.3.1 Client free credit segregation deficiency capital charge

The IDPC Rules do not require capital charges for client free credit segregation deficiencies and allow investment dealers up to five business days to correct any deficiency. MFD Rule 3.3.2(c) requires immediate action to correct a cash segregation deficiency and requires a capital charge for any unresolved deficiency amount.

For all Dealers, we propose to adopt a capital charge for any client free credit segregation deficiency that exists for more than one business day (**DC Rule subsection 4386(3)**). We added a reporting line on Statement B of the DC Form 1 for dealers to report this charge in the risk adjusted capital calculation.

2.9.3.2 Notice to institution – designated trust account

For all Dealers, we propose to adopt the written designated trust notification requirements set out in MFD Rule 3.3.2. (**DC Rule section 4387**)

2.9.4 Safekeeping, safeguarding and related internal controls

We propose to adopt the IDPC Rule safekeeping requirements. We extended the scope of the applicable investment products held for safekeeping to also include “other like assets”. The MFD Rules do not include prescriptive safekeeping requirements.

The safeguarding requirements for both dealer types are generally similar with the scope of provisions differing according to business models. We propose to adopt a modified version of the IDPC Rule provisions relating to safeguarding assets. Where the current requirements reference securities and precious metals bullion, we extended the scope to include “other like assets”.

In the case of access restrictions for the physical handing of assets (**DC Rule section 4423**), the current IDPC provisions only reference securities. We believe it is appropriate to extend these requirements to bearer assets such as precious metals bullion and other like assets.

These changes clarify the safeguarding requirements for assets other than cash. We do not anticipate that these changes will impose a burden on dealers according to their current scope of operations.

2.9.4.1 Safeguarding cash

We propose to adopt the MFD Rule provisions regarding the safeguarding of cash. MFD Rule 400, ICRS 4 includes safeguarding cash requirements not covered in the IDPC Rules, regarding

- general cash requirements (safeguarding of blank cheques (**DC Rule subsection 4433(7)**) and limits on the number of authorized employees permitted to withdraw funds from bank accounts. (**DC Rule subsection 4433 (11)**), and
- trust accounts for client funds. (**DC Rule section 4434**)

We propose to adopt the general cash requirements for all dealers. For mutual fund dealers that do not use client free credit balances within their business only, we propose to adopt the MFD Rule trust account provisions regarding:

- recording and depositing of client cheques (**DC Rule subsection 4434(1)**)
- daily balancing of deposits (**DC Rule subsection 4434(2)**), and
- segregation of interest received payable to clients. (**DC Rule subsection 4434(3)**)

We propose the MFD Rule trust account provision requiring a dealer that pays interest to clients to maintain adequate records of amounts owing and paid to each client (MFD Rule 400 - ICRS 4, Trust Account for Client Funds, 4) to be a general records requirement that should apply to all dealers. Accordingly, we have included the requirement to maintain records of interest owing and paid to the client. (**DC Rule clause 3810(1)(ii)**)

2.9.5 Insurance requirements

Under both MFD Rules and IDPC Rules, Dealer Members are required to have a minimum amount of insurance coverage against prescribed types of losses. The majority of the insurance requirements such as requirements for qualified insurance carriers, prescribed types of losses, policy riders, notifications to CIRO and global policies are the same or substantially similar between IDPC and MFD Rules. For these requirements, we propose to adopt the IDPC Rules which are drafted in plain language. (**DC Rule sections 4452-4456, 4459-4468**)

Although the majority of the insurance requirements are the same there are differences between the rulesets for coverage requirements for certain dealer types and reporting requirements on claims and mail insurance.

2.9.5.1 Coverage requirements

The calculation for determining the minimum amount of insurance coverage differs between the MFD Rules and IDPC Rules. We are proposing to align portions of the calculation that are similar and blend or maintain other portions of the calculation to continue requiring that dealers holding client assets have more insurance coverage than those that do not hold client assets.

The base amount is a component of the calculation of the insurance coverage requirement. The definition of the base amount is similar under the MFD Rules and IDPC Rules and is determined as the greater of (i) the aggregate net equity of client assets held by the Dealer and (ii) the Dealer's total allowable assets. We clarified the language that describes how client net equity held by the Dealer is determined so both investment dealers and mutual fund dealers will continue to determine the client net assets in a similar manner to their existing process. **(DC Rule section 4451)**

Level 1, 2 and 3 mutual fund dealers do not hold or control client securities. Type 1 and 2 investment dealer introducing brokers are not responsible for reporting client accounts or any associated individual position or concentration margin as the carrying broker takes responsibility for segregating and reporting client assets. As a result, these dealer types are subject to a modified insurance coverage calculation under both MFD Rules and IDPC Rules. We are proposing to maintain a modified insurance coverage calculation requirement for these dealer types, but we have proposed slight modifications to the components of the calculation to simplify and align the calculations. These proposed coverage calculations are also included in the insurance schedule of Form 1 where there are separate sections within the schedule for different dealer types.

For Level 1, 2 and 3 mutual fund dealers, we propose to remove the \$50,000 per approved person portion of the calculation and set the minimum coverage amount at \$200,000. There are approximately 3 mutual fund dealers that maintain insurance less than \$200,000 which may need to update their insurance for this new requirement. We also propose to lower the base amount percentage from 1% to ½% to align with the base percentage applicable to Type 1 and 2 investment dealer introducing brokers. Although this approach raises the minimum coverage required, the amount of insurance coverage required for these dealers beyond \$200,000 is expected to be minimal due to the change in base amount percentage and the minimal assets held by these dealers. For Type 1 and 2 investment dealer introducing brokers, we plan to keep the existing requirement for minimum insurance coverage at \$200,000 for a Type 1 and \$500,000 for a Type 2. **(DC Rule section 4458)**

The insurance coverage requirements for Level 4 mutual fund dealers, Type 3 and 4 investment dealer introducing brokers and self-clearing investment dealers are generally the same under both rulesets and we propose to adopt the existing requirements for these dealer types. **(DC Rule section 4457)**

The notes and instructions to Schedule 12 of the Form 1 also describe how the Dealer is expected to determine the net equity for each client and the

net value of assets where assets include cash, securities, precious metals bullion and other investment products.

2.9.5.2 Claim notification

We propose to adopt the IDPC Rule that requires claims be reported to CIRO within 2 business days. This is a new requirement for mutual fund dealers as there is no equivalent reporting requirement in the MFD Rules. *(DC Rule section 4465)*

2.9.5.3 Mail Insurance

The IDPC Rules require an investment dealer to request an exemption from mail insurance if it does not use mail and wishes to exclude mail insurance from its insurance coverage. Under the MFD Rules, a mutual fund dealer is not required to request this exemption or inform CIRO. We propose a hybrid approach where the dealer is not required to maintain mail insurance, if it provides written notice to CIRO that it does not use mail. This approach will reduce the administrative burden of exemption requests for dealers and CIRO. *(DC Rule section 4455)*

Although providing a notice to CIRO will be a new requirement for mutual fund dealers, we do not expect a significant additional burden.

Approximately 7% of mutual fund dealers report not having mail insurance.

2.10 Financing arrangements (DC Rule 4500, 4600)

In this section of the Bulletin, we discuss the proposed amendments to requirements relating to:

- repurchase and reverse repurchase market trading practices
- cash and securities loan, repurchase and reverse repurchase agreement transactions

2.10.1 Repurchase and reverse repurchase market trading practices

IDPC Rule 4500 sets out a standard set of trading practices for repurchase agreements and reverse repurchase agreements. There are no corresponding provisions in the MFD Rules, because mutual fund dealers do not typically participate in repurchase or reverse repurchase market trading. We are proposing to adopt IDPC Rule 4500 into the DC Rules without any modifications.

We did not limit DC Rule 4500 to investment dealers only because we believe these requirements should apply to any Dealer Member that may engage in repurchase or reverse repurchase trading. *(DC Rule 4500)*

2.10.2 Cash and securities loan, repurchase and reverse repurchase agreement transactions

IDPC Rule 4600 sets out requirements for Investment Dealers that engage in securities loans, repurchase and reverse repurchase transactions. There are no corresponding provisions in the MFD Rules. IDPC Rule 4600 is currently under review

as part of a separate project entitled proposed amendments regarding fully paid securities lending and financing arrangements (**FPL Amendments**, published via [Bulletin 24-0067](#)). We are proposing to adopt the current IDPC Rule 4600 into DC Rule 4600 without the FPL Amendments but we have shown the FPL Amendments in grey boxes for reference in Appendices 1-4. The FPL Amendments, once approved, will be integrated into the IDPC Rules as well as the DC Rules (depending on the stage of the Rulebook Consolidation project).

Similar to DC Rule 4500, we did not limit DC Rule 4600 to investment dealers because we believe these requirements should apply to any Dealer Member that may engage in financing transactions. Level 4 mutual fund dealers that offer margin lending may engage in financing activities such as securities lending to finance the margin loans. However, we are not considering allowing mutual fund dealers to engage in fully paid lending at this time. This will be considered at a later date when the FPL amendments are closer to approval. As a result, we have included fully paid lending activities as one of the mutual fund dealer restrictions in DC Rule section 1102. (**DC Rule 4600**)

2.11 Regulatory financial report (DC Form 1)

Both the IDPC Rules and MFD Rules require dealers to file a regulatory financial report on a monthly and annual basis. The regulatory filing report required for mutual fund dealers (**MFD Form 1**) includes special purpose financial statements and six supporting schedules. The regulatory filing report required for investment dealers (**IDPC Form 1**) includes special purpose financial statements, thirteen supporting schedules and nine supplemental schedules. The MFD Form 1 has less schedules due to the mutual fund dealers' simple business activities and limited product offerings.

We propose to adopt one Form 1 (**DC Form 1**) that:

- introduces separate schedules for requirements that are unique to investment dealers or mutual fund dealers
- blends and harmonizes the financial statements and similar schedules,
- customizes certain schedules to dealer type, and
- adopts the IDPC schedules where there is no corresponding MFD schedule.

We believe one Form 1 creates more efficiencies while allowing customization of reporting requirements that may be unique to investment dealers or mutual fund dealers. This approach was the preference expressed by public commenters and we believe it is most appropriate to reduce regulatory arbitrage and regulate like activities in a like manner. A copy of the clean version of the DC Form 1 is included in Appendix 3 and the blackline of the DC Form 1 to the IDPC Form 1 is included in Appendix 4.

There are significant differences between the MFD Form 1 and IDPC Form 1 related to the capital formula calculation and the measurement of certain risks. The IDPC Rules' formula measures the financial health of the Dealer to ensure there are sufficient assets in the event

of a wind-down of the dealer by considering non-current liabilities and additional risk measures that are not considered in the MFD formula.

As described in the subsequent sections of this Bulletin, we propose to adopt the IDPC Form 1 requirements for the capital formula calculation of:

- risk adjusted capital including:
 - net allowable assets, and
 - margin required for risk exposures (e.g. counterparty risk, custody risk, etc.),
- early warning excess and early warning reserve.

2.11.1 Net allowable assets

We propose to adopt the IDPC capital formula which is based on net allowable assets calculated with financial statement capital as the initial capital. (**DC Form 1, Statement B**) The financial statement capital based formula deducts the Dealer's total liabilities from the total assets to determine the initial capital. The mutual fund dealer risk adjusted capital formula is based on working capital which only considers current liabilities and is not reduced for liabilities such as provisions, deferred tax liabilities, and other non-current liabilities. The RAC formula under the MFD Form 1 requires a 10% adjustment for non-current liabilities which results in 90% of the non-current liabilities being included in RAC. Mutual fund dealers regulated under National Instrument 31-103 are subject to the calculation of excess working capital in National Instrument 31-103F1 which does not include this adjustment. Currently, these dealers are able to include 100% of their non-current liabilities in their adjusted working capital. We anticipate the RAC for approximately 13% of mutual fund dealers will be negatively impacted, with a decrease of at least 5%, by switching from the MFD to the IDPC capital formula. These are mainly Level 4 mutual fund dealers as the Level 1-3 mutual dealers tend to have less complex financial statements and minimal non-current liabilities. By adopting the IDPC formula, we realize there will be a significant impact to certain mutual fund dealers that have these non-current liabilities, so we are proposing a phase in approach to the component of the capital formula related to the exclusion of non-current liabilities from RAC. Under this phase in approach a portion of these liabilities will continue to be included in RAC for the first few years after implementation of the DC Form 1. We expect the mutual fund dealers to take action to adjust their business arrangements to reduce these liabilities that significantly impact their RAC.

We propose that for mutual fund dealers that reported non-current liabilities on their final MFD Form 1, before implementation of the DC Form 1 (**Pre-DC Form 1 non-current liabilities**), may add back a portion of these non-current liabilities when determining the net allowable assets during a five year transitional period following the effective date of the DC Rules. We have included a transitional line on Statement B where mutual fund dealers may add back a portion of their non-current liabilities based on the following transitional percentages:

Period following implementation of DC Rules	Percentage of Pre-DC Form 1 non-current liabilities that may be added back to RAC
1 st year	90%
2 nd and 3 rd year	80%
4 th and 5 th year	50%
6 th year and onward	0%

We propose a five year transitional period based on feedback from impacted dealers indicating it may take up to five years to eliminate existing non-current liabilities due to the nature of the liabilities. We determined the percentage amounts based on analysis of how existing non-current liabilities will impact mutual fund dealers' RAC and early warning tests under the proposed DC Form 1 and the challenges dealers will face in reducing these liabilities in the first few years after implementation of the DC Rules. As a result, the percentage of non-current liabilities that may be added back to RAC is significantly higher in the first three years following implementation. While the last two years, we expect the liabilities to decrease more significantly as the business strategies creating these liabilities are wound down.

2.11.2 Early warning excess and early warning reserve

Early warning excess (**EWE**) measures short-term liquidity and is used as part of the early warning test framework that provides advance warning of short-term liquidity issues that could lead to a Dealer financial insolvency if not resolved. Both the IDPC and MFD Form 1 include a calculation for early warning excess, although the MFD Form 1 calculation is simpler due to the working capital formula. The IDPC Form 1 includes an early warning reserve (**EWR**) calculation which is an added capital cushion adjustment based on the dealers total margin required.

We propose to adopt the IDPC EWE and EWR calculations with slight modifications to align with the risk adjusted capital approach. Although this will subject mutual fund dealers to the additional EWR calculation, the Level 1 to 3 mutual fund dealers will not be impacted because the early warning tests proposed for Level 1 to 3 mutual fund dealers do not consider EWR. The EWR calculation will be a new requirement for Level 4 mutual fund dealers since we propose to adopt and apply the IDPC early warning tests to Level 4 mutual fund dealers (as explained in section 2.7.2 of this Bulletin). The EWR is considered in determining if early warning level 1 has been triggered for level 4 mutual fund dealers and investment dealers. (**DC Form 1, Statement C**)

In the proposed DC Form 1, we also modified the early warning excess and reserve calculation on Statement C by:

- Adding a line to adjust for the mutual fund dealers' non-current liabilities during the proposed phased implementation period, and
- Adding a line to adjust for provider of capital charges related to other allowable assets.

2.11.2.1 Adjustment for phase in approach related to non-current liabilities

Since the early warning excess is measuring the dealer's liquidity, the non-current liabilities are added to risk adjusted capital to determine the early warning excess. Since we are proposing a phase in approach for the exclusion of non-current liabilities in RAC, the EWE calculation also needs to be adjusted for the phase in approach to eliminate "double counting" of the phase in adjustment. We have added a reporting line to Statement C of the DC Form 1 for mutual fund dealers to adjust the non-current liabilities during the transitional implementation period. **(DC Form 1, Statement C Line 7b)**

2.11.2.2 Adjustment for provider of capital charge related to other allowable assets

In the calculation of early warning reserve, we propose to introduce a new adjustment for other allowable assets that result in a provider of capital charge. There is the possibility of "double counting" capital reductions in the determination of a Dealer Member's early warning reserve when the Dealer Member has a provider of capital charge related to other allowable assets. Since it was never the intent of the provider of capital calculation that "double counting" would occur in the determination of the early warning reserve, an amendment to Statement C is necessary. This issue was identified in an IDPC member regulation notice (MR-0024) but the amendment was not made at the time the provider of capital calculation was introduced and has created unintended early warning consequences for Dealer Members. Since all Dealer Members including mutual fund dealers will be subject to provider of capital concentration requirements, this adjustment to Statement C is required to prevent unintended early warning consequences to those Dealers with a provider of capital charge. **(DC Form 1, Statement C Line 10)**

2.11.3 Margin required for risk exposures

There are significant differences in the consideration and measurement of certain risks within the risk adjusted capital calculations, between the existing mutual fund dealer Form 1 and the investment dealer Form 1, such as:

- Counterparty credit risk,
- External custody risk,
- Securities concentration risk,
- Foreign currency exposure risk,
- Provider of capital exposure risk.

In developing the DC Form 1, our approach was to ensure common risks have the same regulatory treatment regardless of the dealer type that is taking on that risk. For example, a mutual fund dealer holding foreign currency has the same foreign currency risk as an investment dealer holding the same foreign currency. Under our

proposed approach mutual fund dealers and investment dealers are subject to the same margin requirements for these common risks. In addition to margin requirements, for counterparty and custody risk we propose to adopt the IDPC Form 1 classification criteria for counterparties and custodians (such as acceptable institutions, acceptable counterparties, acceptable securities locations). The IDPC Form 1 classifications are more stringent than the MFD Form 1 as certain counterparties must meet minimum net worth standards to be considered more credit worthy under the IDPC Rules. While we are proposing to adopt additional margin requirements and more stringent counterparty standards for mutual fund dealers, we do not anticipate that these additional risk measures will create material changes to the mutual fund dealers' RAC. We anticipate the provider of capital exposure risk may cause material impacts to the mutual fund dealers RAC and a transitionary period for implementation is proposed.

2.11.3.1 Counterparty credit risk

Under the IDPC Form 1, the counterparty credit risk is addressed by:

- Classifying counterparties based on their creditworthiness (**DC Form 1 General Notes and Instructions**)
- Reporting non-transactional receivables from certain counterparties as non-allowable assets (**DC Form 1 Statement A**)
- Requiring margin for trading-related exposures to certain counterparties (**DC Form 1 Statement B**)

Under the MFD Form 1, counterparty credit risk is also addressed through counterparty classification and reporting of allowable and non-allowable assets, but the classification categories and criteria are different from the IDPC requirements for certain counterparties. Also the MFD capital formula does not consider margin for trading-related exposures.

We also propose to introduce a credit risk framework for the treatment of mutual fund dealers' client debit balances. We propose to allow the option for mutual fund dealers to continue to apply the existing MFD Rule capital requirements to all client debit balances, if they choose to.

(i) Counterparty classification

The current counterparty definitions under the IDPC Form 1 and MFD Form 1 are as follows:

- Acceptable institution (**AI**) (*both MFD Form 1 and IDPC Form 1*)
- Acceptable clearing corporation (**ACC**) (*IDPC Form 1 only*)
- Acceptable counterparty (**AC**) (*IDPC Form 1 only*)
- Acceptable entity (**AE**) (*MFD Form 1 only*)
- Regulated entity (**RE**) (*both MFD Form 1 and IDPC Form 1*)

While the counterparty terms may be the same in certain cases under both rulesets, the definitions of these terms are different. The counterparty definitions under the existing IDPC Form 1 prescribe minimum net worth requirements and a more expansive list of counterparty types than the MFD Form 1 definitions. The counterparty definitions are also applied within the IDPC Rules to classify counterparties that qualify as institutional clients. Institutional clients are exempt from certain standards such as suitability, relationship disclosure, performance and fee reporting. We propose to adopt the IDPC definitions within the proposed DC Form 1 to align with the proposed DC Rules from previous phases where we have adopted the institutional client exemptions. As a result, the IDPC counterparty definitions for acceptable institution, acceptable clearing corporation, acceptable counterparty and regulated entity are brought forward to the DC Form 1.

“Acceptable Institution”

We propose to adopt the IDPC Form 1 definition of AI which includes a more expansive list of entities and more stringent net worth criteria. Under the MFD Form 1, the acceptable institution definition is limited to entities that are Canadian banks, trust companies and credit unions. Under the IDPC Form 1, the acceptable institution definition includes a more expansive list of entities such as governments, Canadian and foreign banks and trust companies, Canadian and foreign pension plans, Canadian insurance companies and credit unions. The IDPC Form 1 definition of AI also requires these entities to meet minimum net worth criteria to qualify as an AI. An AI under MFD Rules has no minimum net worth threshold requirements. By adopting the IDPC definition, counterparties categorized as acceptable institution or acceptable entity under the MFD Form 1 may not qualify as an acceptable institution under the proposed DC Form 1. Mutual fund dealers may have potential capital implications for these types of counterparties where the entity does not meet the net worth requirements. Based on our analysis, we anticipate the impact to be minimal as a significant majority of the financial institutions that mutual fund dealers deal with will meet the net worth requirements to qualify as an acceptable institution.

“Acceptable clearing corporation”

We propose to adopt the IDPC Form 1 definition of acceptable clearing corporation within the DC Form 1. The MFD Form 1 does not have a definition of acceptable clearing corporation as mutual fund dealers are not usually direct participants of clearing corporations due to the nature of the products they offer.

“Acceptable counterparty”

We propose to adopt the IDPC acceptable counterparty definition. Under the IDPC Rules, counterparties that qualify as acceptable counterparties are

considered to be less creditworthy than acceptable institutions but sufficiently creditworthy for dealers to deal with these counterparties on a value for value basis. The acceptable counterparty definition includes many of the similar entities as the acceptable institution definition except the minimum net worth threshold requirement is lower for an AC than an AI. In addition to financial institutions, the AC definition includes additional entities such as mutual funds and corporations which are also subject to a minimum net worth requirement. Corporations are classified as acceptable entities under the MFD Form 1, but will fall in the category of AC in the proposed DC Form 1. Mutual fund companies are not included in the acceptable entity or acceptable institution definition of MFD Form 1 so this will be a new entity categorization for mutual fund dealers.

“Acceptable entity”

We do not propose to adopt the definition of acceptable entity that exists in the MFD Form 1 as it is considered redundant since it includes categories such as acceptable institution and regulated entity within the definition itself. Also other existing categories of counterparties within this definition are captured within the AI and AC definitions.

“Regulated entity”

We propose to adopt the IDPC definition of regulated entity. The definition of regulated entity under the MFD Form 1 is based on the IDPC definition so the entities that qualify under this definition are similar, except for the qualification of mutual fund dealers. Under the MFD Form 1, mutual fund dealers are classified as acceptable entities and under the DC Form 1 a mutual fund dealer may be classified as an acceptable counterparty if the minimum net worth requirements are met. Under the proposed DC Form 1 definition a mutual fund dealer will be classified as a regulated entity since they are a Dealer Member of CRO under the DC Rules.

(ii) Reporting non-transactional receivables

We propose to adopt the IDPC Form 1 approach to other allowable assets which would limit the other allowable assets to receivables from AIs (**DC Form 1 Statement A**). Under both the MFD Form 1 and the IDPC Form 1, non-transactional receivables from certain entities are classified as other allowable assets on Statement A. The MFD Form 1 and IDPC Form 1 differ in the qualification requirements of these entities. Under the MFD Form 1 other allowable assets include receivables from acceptable entities whereas under the IDPC Form 1 other allowable assets include receivables from acceptable institutions.

For mutual fund dealers, non-transactional receivables with certain counterparties may no longer be considered other allowable assets under the proposed DC Form 1, resulting in a deduction to risk adjusted capital.

For example, non-transactional receivables from regulated entities (other than receivables for IB/CB arrangements or margin deposits), corporations, provincial capital cities, and municipalities no longer qualify as other allowable assets. The other allowable non-transactional receivables reported by mutual fund dealers mainly consists of commission receivables (related to GICs) from financial institutions such as banks, trust companies and insurance companies which will continue to qualify as other allowable assets. We anticipate a minor impact to mutual fund dealers that have interest or dividend receivables from corporations since these receivables are classified as non-allowable assets on the proposed DC Form 1.

(iii) Reporting trading-related balances and margin requirements

To harmonize the counterparty and client reporting and the treatment of client debit balances, while establishing customized and more simplified reporting for mutual fund dealers we propose:

- maintaining separate Form 1 schedules for mutual fund dealers and investment dealers for reporting client trading balances but expanding the mutual fund dealer schedule to include additional counterparties (AI and AC), credit balances and margin reporting **(DC Form 1 Schedule 3)**
- introducing a credit risk framework for mutual fund dealer client debit balances, **(DC Form 1 Schedule 3)**
- codifying a harmonized margin treatment for debit balances in registered accounts **(DC Form 1 Notes and instructions to Schedule 3 and 4)**
- introducing a broker trading balance schedule for mutual fund dealers **(DC Form 1 Schedule 6)**
- adopting the IDPC equity deficiency margin treatment for trading balances with ACs and REs **(DC Form 1 Notes and instructions to Schedule 3 and 6)**
- adopting the IDPC Form 1 schedule for reporting the ten largest settlement date trading balances with AIs and ACs **(DC Form 1 Schedule 5)**

Mutual fund dealers may have clients that qualify as an AI, AC or RE in which case the dealer may benefit from reduced capital requirements under the proposed credit risk framework for these clients. Under the MFD Rules, there are no capital implications for trading balances, with an AI, AC or RE, that arise from trading activity such as the purchase or sale of investment products for the mutual fund dealers' clients. The proposed margin requirements for balances with an AC or an RE may increase capital implications for these trading balances but we believe its important to reduce regulatory arbitrage since the counterparty risk is the same regardless of which dealer type is engaging with the counterparty. We do not anticipate significant capital implications to mutual fund dealers, but we may consider a phased-in implementation approach for mutual fund

dealers to have time to put the proper systems and policies and procedures in place to monitor and calculate margin implications of these counterparties. In the questions section we have requested commenters to provide feedback on this potential approach.

Separate Form 1 schedules for reporting client trading balances

We propose separate client account reporting schedules in the DC Form 1 for mutual fund dealers and investment dealers, but we have harmonized these schedules to align with the IDPC Form 1 reporting approach. The purpose of the separate schedules is to allow the mutual fund dealers with simpler business models (not offering margin accounts) to complete a customized schedule that is more applicable to their business. We have harmonized the mutual fund dealer client account reporting schedule to the IDPC reporting approach by:

- adding reporting lines for client credit balances, in addition to the existing debit balance reporting
- introducing reporting lines for trading balances with AIs and ACs, and
- adding reporting lines for margin required on the credit risk exposures with clients.

We have preserved the reporting of advance redemption proceeds by mutual fund dealers for those dealers that advance funds to clients in connection with the redemption of mutual fund securities. (**DC Form 1 Schedule 3**)

We propose to adopt the IDPC Form 1 Schedule 4 to apply to investment dealers with no changes to the reporting requirements. (**DC Form 1 Schedule 4**)

We are requesting feedback in the questions section of the Bulletin on whether the separate schedule approach is necessary or whether a combined schedule for both mutual fund and investment dealers is more effective.

Credit risk framework for mutual fund dealer client debit balances

We propose to introduce a credit risk framework for client debit balances that allows mutual fund dealers to apply a margin calculation methodology based on the credit risk exposure to the client.

Where the client qualifies as an AI or AC, we propose margin be determined based on the same methodology as the IDPC Rule margin requirements.

Where the client does not qualify under a specific counterparty category, we propose margin be determined as the equity deficiency in the client account for balances overdue less than 6 business days past regular settlement date. This equity deficiency approach is similar to the margin approach under the IDPC Form 1 for cash accounts. To encourage mutual fund dealers

to resolve these debit balances on a timely basis, we propose that if the debit balance is not resolved within 6 business days, 100% of the debit must be deducted from risk adjusted capital.

Alternatively, to maintain operational simplicity, mutual fund dealers may choose to margin client debit balances, including clients categorized as acceptable institutions and acceptable counterparties, at 100% of the balance, as currently required under MFD Rules.

Approximately 25% of mutual fund dealers report client debits on the MFD Form 1 and may be impacted if they adopt the new margining approach. Mutual fund dealers that apply the new credit risk framework may need to update their policies, procedures and systems but would benefit from reduced regulatory capital requirements. Also, if the mutual fund dealer applies the equity deficiency margin approach the client account related securities concentration requirements must also be considered. In the notes and instructions to DC Form 1 Schedule 3, we have clarified the requirement to consider concentration when applying the equity deficiency margin approach. **(DC Form 1 Schedule 3 and 4 Notes and Instructions)**

Margin treatment of debit balances in registered accounts

We published guidance for investment dealers on how to treat client debit balances if they arise in a registered account (GN-FORM1-22-001). We propose to codify this guidance in the proposed DC Form 1 and extend this treatment to apply to both investment dealers and mutual fund dealers. **(DC Form 1 Schedule 3 and 4 Notes and Instructions)**

Schedule for mutual fund dealers to report broker trading balances

We have introduced a simpler version of the IDPC broker trading balance schedule in DC Form 1 to apply specifically to mutual fund dealers reporting broker and dealer trading balances. **(DC Form 1 Schedule 6)** This schedule includes not only balances with regulated entities but also trading balances with mutual fund companies for redemptions and purchase transactions. We do not propose to include a reporting line on this schedule for balances with acceptable clearing corporations since mutual fund dealers are typically not participants of clearing corporations. We expect most mutual fund dealers clear trades with mutual fund companies (for mutual fund securities transactions), financial institutions (for GIC and segregated fund transactions) or regulated entities (for exchange-traded fund transactions). We are seeking feedback on this approach in the questions section of the Bulletin.

We propose to adopt the IDPC Form 1 schedule for reporting broker trading balances to apply to investment dealers with no changes to the reporting or margin requirements. **(DC Form 1 Schedule 7)**

Equity deficiency margin treatment for trading balances with AC and RE

Under MFD Form 1 there are no margin implications for trading balances arising from purchases and sales of client or dealer securities or investments. Under IDPC Form 1 where a trading balance arises with an acceptable counterparty or regulated entity, a credit risk exposure margin calculation is required equal to the equity deficiency. We propose to harmonize the treatment of this credit risk exposure by adopting the IDPC margin approach for AC and RE which will align both mutual fund dealers and investment dealers to the same margin implications for trading with these entities. *(DC Form 1 Notes and instructions to Schedule 3 and 6)*

Reporting significant trading balances with AIs and ACs

We propose to extend the requirement to report significant settlement date balances with AIs and ACs to mutual fund dealers. This reporting is provided on an annual basis and is limited to the 10 largest settlement date balances that exceed \$250,000 or 20% of risk adjusted capital. Although this is a new reporting requirement for mutual fund dealers, we do not anticipate a significant impact as we expect most settlement date balances with these entities are below the reporting thresholds. *(DC Form 1 Schedule 5)*

2.11.3.2 External Custody risk

We propose to adopt the IDPC custody risk requirements within the IDPC Form 1 for both investment dealers and mutual fund dealers which includes:

- qualification requirements for custodians to meet the acceptable securities location definition, and
- margin implications for unreconciled positions or securities held at non-acceptable locations.

The custodian qualification requirements are generally similar under both rule sets but where there is a difference we propose to adopt the IDPC qualifications which are more stringent. We also bring forward the IDPC margin requirements which have more flexibility to address situations with different risks such as when the external location is acceptable, but the agreement or reconciliation requirements are not met.

(i) Acceptable securities location

The acceptable securities location definition under the existing rules includes various counterparties that are considered acceptable to hold client and dealer securities. Both IDPC and MFD rules consider depositories, mutual funds, regulated entities and federal and provincial governments to be qualifying acceptable securities locations. Our proposal to adopt the IDPC definition would not impact dealers holding securities at these locations.

The main difference in the acceptable securities location definition between the IDPC rules and the MFD rules is the qualification of financial institutions such as banks, credit unions and trust companies. The IDPC Rules require a minimum net worth threshold to be met for qualification of these counterparties, but the MFD Rules do not have an equivalent net worth requirement. We anticipate the current financial institution custodians used by mutual fund dealers, for holding mutual fund products and exchange-traded funds, will qualify as acceptable securities location under the proposed definition. The net worth requirements may impact mutual fund dealers that hold guarantee investment certificates or other similar assets at low-capitalized credit unions or other financial institutions.

There are additional securities locations under the IDPC acceptable securities location definition that are not included in the current MFD acceptable securities location definition such as foreign locations and the London Bullion Market Association (for holding gold and silver bars). By adopting the IDPC definition these custodians would be newly acceptable securities locations for mutual fund dealers if the dealer holds securities or eligible precious metals bullion at such custodians. **(DC Form 1 General notes and definitions)**

(ii) Margin requirements for custody risk

Under both the IDPC and MFD rules, margin requirements are imposed when securities are held at a non-acceptable securities location and when unresolved differences arise from reconciliations with the custodian's records. Where there are differences in the requirements, we propose to adopt the IDPC requirements in the proposed DC Form 1 which may result in reduced margin implications for mutual fund dealers.

Under both the IDPC and MFD acceptable securities location requirements, an external custodian must meet the counterparty qualification criteria and must sign a written custody agreement that includes specified terms, otherwise margin requirements may apply. Where the external custodian does not meet the counterparty qualification criteria the margin required under both rulesets is equal to 100% of the market value of the securities held at the custodian. The margin requirements under the IDPC and MFD Rules differ in the situation where the external custodian meets the counterparty qualification criteria for an acceptable securities location, but the written custody agreement is not acceptable. The IDPC Rules recognize that an inadequate custody agreement does not pose a risk to 100% of the securities when held at a qualifying securities location. Under this situation the IDPC Rules impose a penalty of 10% of market value of the securities on the early warning excess as explained in the notes and instructions to Statement B and C of the Form 1. By adopting of IDPC requirements, mutual

fund dealers will benefit from the reduced margin implications if this situation arises. **(DC Form 1 Statement B Line 21 and Statement C Line 4)**

For unresolved differences associated with reconciling to mutual fund custodians, IDPC Rules recognize that these custodians may provide statements or records on a quarterly instead of monthly basis which creates challenges for dealers to perform monthly reconciliations to identify differences. The IDPC Rules allow reduced margin implications where mutual fund positions are not reconciled on a monthly basis if certain conditions are met. By adopting the IDPC Rules for unresolved differences, this reduced margin approach for mutual fund position reconciliations will also be available to mutual fund dealers where the conditions are met to apply it. **(DC Form 1, Statement B Line 24)**

2.11.3.3 Securities concentration risk

We propose to adopt the IDPC securities concentration risk requirements for both investment dealers and mutual fund dealers as any dealers investing in securities or providing client margin on securities are exposed to this risk. We propose to introduce simplified concentration schedules in the DC Form 1 which will be applicable to mutual fund dealers that invest their excess cash in securities or hold inventory positions that may pose a concentration risk.

The concentration schedules are based on the IDPC concentration risk requirements for inventory positions in the existing IDPC Form 1 Schedules 9, 9A and 9B. We have excluded the client concentration risk requirements from the simplified concentration schedules because mutual fund dealers do not currently offer margin to clients, and we expect most mutual fund dealers will continue to maintain this approach. **(DC Form 1 Schedules 10, 10A and 10B)**

As described in other sections of this Bulletin, we are proposing to allow mutual fund dealers to offer margin to clients or calculate margin using the cash account margining approach under certain conditions. Mutual fund dealers that choose to offer margin to clients or use the cash account margining approach would be required to consider the client concentration risk and complete the concentration schedules that include both inventory and client positions. **(DC Form 1 Schedules 11, 11A and 11B)**

We have also introduced the term “diversified investment product” to expand the option for dealers to “look through” certain investment products to the underlying securities, when determining the concentration exposure. Under the IDPC Form 1 requirements, the dealer may calculate their concentration risk exposures for broad based index positions by looking through to the underlying securities in the basket and calculating the exposure on the individual securities in the basket. We recognize that

certain investment products, such as mutual funds that have a diversified basket of underlying investment products, pose significantly less concentration risk than individual securities. We propose to broaden the “look through” approach beyond index products to include other investment products with a diversified basket of underlying investment products (excluding derivatives). We are also seeking feedback on whether we should go further and exclude certain diversified investment products from the concentration exposure calculation completely.

Although calculating securities concentration risk exposures will be a new requirement for mutual fund dealers, we do not anticipate any material impacts to their RAC. Mutual fund dealers with simple business models such as Level 1-3 mutual fund dealers typically invest their excess cash in money market products or government issued products that are excluded from the concentration risk calculation. For those mutual fund dealers that have invest their excess funds in products such as mutual funds, securities, debt or other products that are subject to the concentration calculation, we do not expect the loan value amounts compared to RAC to be significant enough to trigger concentration charges.

2.11.3.4 Foreign currency exposure risk

We are proposing to adopt the IDPC foreign currency exposure risk requirements for both investment dealers and mutual fund dealers as any dealers with foreign currency assets, liabilities and contracts are exposed to this risk. This means adopting the current IDPC Form 1 unhedged foreign currency calculation schedule (Schedule 11) into the DC Form 1 as a schedule (proposed Schedule 13) applicable to both mutual fund dealers and investment dealers. **(DC Form 1 Schedule 13)**

Although calculating unhedged foreign currency risk exposure will be a new requirement for mutual fund dealers, we do not anticipate any material impacts to their RAC. We expect the calculation will not be applicable for most Level 1 to 3 mutual fund dealers that have a simple business with no foreign currency assets and liabilities. For those mutual fund dealers that have foreign currency exposures, we anticipate the exposures will be generally limited to US dollar cash deposits and this exposure is likely hedged against the US dollar client liabilities resulting in minimal unhedged exposure. We also do not anticipate mutual fund dealers to engage in foreign currency trading or futures contracts. As a result, we propose to introduce a separate simplified version of the IDPC Form 1 detail foreign currency margin calculation schedule into the DC Form 1. This simplified schedule excludes the foreign exchange contract exposure calculations that are not expected to apply to mutual fund dealers and would allow mutual fund dealers to calculate and report the details of the unhedged foreign

exchange exposure related to monetary assets and liabilities. (**DC Form 1, Schedule 13A**)

2.11.3.5 Provider of capital exposure risk

We are proposing to adopt the IDPC provider of capital exposure risk requirements for both investment dealers and mutual fund dealers as any dealers with substantial cash deposits, loans and investments with their provider of capital are exposed to this risk. This means adopting the current IDPC Form 1 provider of capital concentration charge schedule into the DC Form 1 as a schedule applicable to both mutual fund dealers and investment dealers. (**DC Form 1 Schedule 14**)

We anticipate approximately 13% of mutual fund dealers will have a potentially significant provider of capital charge because they hold a significant portion of cash at a parent bank or financial institution that would trigger a provider of capital charge. In order to give these dealers the appropriate time to reorganize their business to reduce the provider of capital exposures, we are proposing a phase in approach for the provider of capital exposure.

We propose that mutual fund dealers may reduce the provider of capital charge when determining RAC during a five year transitional period after implementation of the DC Rules and DC Form 1. The full amount of the provider of capital charge will be required to be included in RAC in the sixth year following implementation. This transition period and the phase in percentages are consistent with the proposed phase in approach for the portion of the capital formula related to non-current liabilities. We believe a common phase in approach is more efficient and will prevent errors and confusion that may arise from multiple different transition periods. The proposed reduction percentages to phase in the provider of capital charge are as follows:

Period following DC Rule Implementation	Provider of capital charge phase in reduction percentage
1 st year	90%
2 nd and 3 rd year	80%
4 th and 5 th year	50%
6 th year	0%

2.11.4 Organization of Form 1 Statements and Schedules

Although we are proposing to adopt the IDPC Form 1 capital formula and general structure, we have reorganized and renamed certain statements and schedules to accommodate the additional mutual fund dealer schedules and provide a more logical and sequential order for similar schedules.

2.11.4.1 Blended statements and schedules

We have blended the following statements and schedule to include reporting lines from both the MFD Form 1 statements and the IDPC Form 1 statements to ensure the existing regulatory financial information for each dealer type continues to be reported:

- Statement of financial position (**DC Form 1 Statement A**),
- Statement of risk adjusted capital (and supplemental details of unresolved differences) (**DC Form 1 Statement B and Statement B supplemental**),
- Statement of early warning excess and reserve (**DC Form 1 Statement C**),
- Statement of income and comprehensive income (**DC Form 1 Statement D**),
- Statement of changes in capital and retained earnings (**DC Form 1 Statement E**),
- Securities owned and sold short (**DC Form 1 Schedule 2**),
- Current income tax (**DC Form 1 Schedule 8**),
- Insurance (**DC Form 1 Schedule 12**), and
- Other supplementary information. (**DC Form 1 Schedule 18**)

The changes in the reporting lines of these statements and schedules due to blending can be identified in the table of concordance (Appendix 5) and blackline to the IDPC Form 1 (Appendix 4).

2.11.4.2 IDPC schedules adopted where no equivalent MFD schedule

We propose to adopt into the DC Form 1 the following IDPC schedules applicable to investment dealers where there is currently no equivalent MFD Schedule:

- Statement of free credit segregation (**DC Form 1 Statement F**),
- Analysis of loans, securities borrowed/loaned and resale/repurchase agreements (**DC Form 1 Schedules 1 and 9**),
- Cash and securities borrowing and lending arrangements concentration charge (**DC Form 1 Schedule 9A**),
- Margin for concentration in underwriting commitments (**DC Form 1 Schedule 2A**),
- Underwriting issues margined at less than the normal margin rates (**DC Form 1 Schedule 2B**),
- List of ten largest settlement date trading balances with acceptable institutions and acceptable counterparties (**DC Form 1 Schedule 5**),
- Tax recoveries (**DC Form 1 Schedule 8A**),
- Provider of capital concentration charge (**DC Form 1 Schedule 14**), and
- Margin on futures concentration and deposit, (**DC Form 1 Schedules 15**)

As explained in section 2.11.3.5 of this Bulletin, mutual fund dealers are expected to be impacted by the provider of capital concentration charge if they hold cash at an associated financial institution.

The tax recoveries schedule gives recognition to the tax effect of revenue-related receivables and margin by calculating applicable tax recoveries that may be added back to risk adjusted capital or early warning excess. The tax recoveries schedule will be a new schedule for mutual fund dealers resulting in a potential benefit of increased risk adjusted capital for those dealers with significant tax expenses.

The remaining schedules generally apply to investment dealers' activities, but if a mutual fund dealer is engaging in any activity that would be reported or margined on these schedules they will be impacted by the adoption of these schedules. For example, if a mutual fund dealer engages in financing activities, they would be required to report the related balances on Schedule 1 and 9 or if they opt to use client free credits, they would need to complete DC Form 1 Statement F.

2.11.4.3 Schedules customized to MFDs

We propose separate schedules specific to mutual fund dealers and investment dealers for the following:

- Certificate of UDP and CFO,
- Client trading balances (**DC Form 1 Schedules 3 and 4**),
- Broker dealer trading balances (**DC Form 1 Schedules 6 and 7**),
- Securities concentration (**DC Form 1 Schedules 10, 10A, 10B and 11, 11A, 11B**),
- Foreign exchange margin requirements (**DC Form 1 Schedules 13, 13A and 13B**), and
- Early warning tests. (**DC Form 1 Schedules 16 and 17, 17A**)

As explained in other sections of this Bulletin we are proposing simplified versions of the schedules for broker dealer trading balances, securities concentration and foreign exchange margin which will be applicable to mutual fund dealers with simple business activities. We are proposing different approaches for certain mutual fund dealers and investment dealers for client margining and early warning tests so we have proposed appropriate separate schedules in the DC Form 1. Although the questions on the Certificate of UDP and CFO are generally the same for mutual fund dealers and investment dealers, there are differences related to cash segregation, reconciliation of trust accounts and other mutual fund dealer specific requirements. We have proposed separate Certificates of UDP and CFO for mutual fund dealers and investment dealers due to these differences. Where a mutual fund dealer chooses to offer margin or use free credits, the CFO and UDP must sign the certificate designed for investment

dealers that includes questions related to free credit segregation and concentration of securities as explained in the notes and instructions to the certificate.

2.11.4.4 New schedule related to assets under administration

We are also proposing to introduce an additional schedule to collect supplementary information on the assets under administration at Dealers. This schedule expands the information currently reported by mutual fund dealers in the mutual fund dealer Form 1 to divide the data between client and nominee name and between assets including Quebec and excluding Quebec. The schedule also requires investment dealers to provide assets under administration information for outside holdings and client assets introduced by a mutual fund dealer. Dual registered dealers are also required to provide assets under administration information on this schedule. The assets under administration schedule was added to assist CISO in determining fees and assessments. **(DC Form 1 Schedule 19)**

2.11.4.5 Audit reports and agreed-upon procedures

(i) Audit reports

Under both the MFD and IDPC Form 1, two independent audit reports are required to be filed by the auditor with the annual Form 1. The auditor provides an opinion on whether the financial statements fairly present the financial position of the dealer and the results of its operations. The auditor provides a second opinion on whether the additional statements are prepared in accordance with the Notes and Instructions to Form 1. This second audit report differs between the MFD and IDPC Form 1 because the IDPC Form 1 includes an additional statement for the free credit segregation amount which is not part of the MFD Form 1.

We propose to maintain the standard audit report for the financial statements **(DC Form 1 Statements A, D and E)** applicable to both mutual fund dealers and investment dealers. We propose to adopt both audit reports for the opinion on additional statements for mutual fund dealers and investment dealers as separate reports in DC Form 1. The audit report applicable to mutual fund dealers should be used by auditors for mutual fund dealers that continue to segregate all client cash in trust. This audit report does not include the statement of free credit segregation amount in the opinion. Where the mutual fund dealer chooses to use free credits in their business, the auditor will be required to complete the audit report that includes an opinion on the statement of free credit segregation amount.

(ii) Agreed-upon procedures report

Under both the MFD and IDPC Form 1, the auditor is required to perform a set of agreed-upon procedures and include a report of the findings in the

Form 1. There are additional procedures required in the IDPC Form 1 for guarantee/guarantor arrangements. The segregation procedures also differ between the IDPC Form 1 and MFD Form 1 due to the investment dealers ability to offer margin.

We propose to adopt both the agreed-upon procedures report from the MFD Form 1 and the IDPC Form 1 as separate reports in the DC Form 1. This will allow auditors to apply the agreed-upon procedures for mutual fund dealers that continue to have a simple business. Where the mutual fund dealer chooses to offer margin to clients, the auditor would be required to complete the agreed-upon procedures report that includes the segregation procedures related to a dealer that offers margin.

2.11.5 Other Form 1 proposals

2.11.5.1 Reporting and filing

One of the reporting differences between the MFD and IDPC Form 1 is that mutual fund dealers report their figures in dollars and investment dealers report figures to the nearest thousand. Amounts less than a thousand are generally immaterial so we are proposing all amounts be reported to the nearest thousand in the DC Form 1.

We recognize the number of statements and schedules may seem overwhelming for those dealers with limited or simple business activities where most of the schedules would not apply. Our approach to help dealers complete the relevant parts of the DC Form 1 is to create more customization in the regulatory filing system. We plan to create a questionnaire type component to the regulatory filing system where Dealers will answer questions about their business that will then show relevant schedules or lines for input and hide the non-relevant schedules.

On a monthly basis, dealers will only be required to file a subset of schedules from the Form 1. This approach is consistent with the current IDPC monthly filing report requirements. The schedules to be filed by each dealer type are outlined in the DC Form 1 general notes and definitions. Mutual fund dealers will benefit from reduced monthly reporting of certain schedules. For example, the “Analysis of clients trading accounts” schedule (**DC Form 1 Schedule 3**) is only required to be submitted on an annual basis. As discussed in section 2.2.2 of this Bulletin we propose a new definition, “monthly financial report” to represent the Form 1 subset that is filed on a monthly basis.

2.11.5.2 Mutual fund dealers structured as not-for-profit

We have modified certain statements and corresponding notes and instructions to accommodate fund balance reporting for those dealers that are structured as a not-for-profit organization. Dealers that are structured

as a not-for-profit organization do not have share capital. The base capital for these dealers is the fund balances they receive in donations. We have included the fund balances as capital in the risk adjusted capital calculation but we have proposed an adjustment to deduct any fund balances that are restricted by an external party other than CISO. If the fund balances have been restricted by an external party, we do not consider these funds as available capital for the dealer. Statements A, B, D and E and the corresponding notes and instructions were amended to consider fund balance reporting for not-for-profit organizations.

2.11.5.3 Proposed Form 1 compared to the MFD Form 1

The table of concordance in Appendix 5 includes a comparison of the MFD Form 1, IDPC Form 1 and DC Form 1 to assist mutual fund dealers in identifying and assessing the Form 1 changes and potential impacts. We have adopted or blended all of the MFD Form 1 statements and schedules into the proposed DC Form 1, except for the statement of changes in subordinated loans (currently Statement F of the MFD Form 1). We are proposing to repeal the statement of changes in subordinated loans in its entirety. This statement is no longer needed as CISO obtains all necessary details of the subordinated loans outstanding at each Dealer Member at the time CISO approves changes to such loans. This statement was repealed from the investment dealer Form 1 in 2011 for similar reasons.

2.11.5.4 Proposed Form 1 compared to the IDPC Form 1

In addition to the table of concordance in Appendix 5, we have provided a blackline of the proposed DC Form 1 to the IDPC Form 1 in Appendix 4.

3. Impacts of the Proposed DC Rules

3.1 Impact assessment approach

As the Rule Consolidation Project is being pursued in five phases, and the combined impact of the project can only be assessed once development of all five phases, including consultations on each phase, has been completed, it would be misleading for us to assess the impact of each phase in isolation from the other phases or to make an assessment of the combined impact of the five project phases until all phases have been developed.

To provide you with some impact information in the interim, we will identify the impacts specific to each project phase as each project phase is published for public comment. We will provide an overall Rule Consolidation Project impact assessment once all 5 phases have been completed.

3.2 Specific impacts of Phase 5 Proposed DC Rules

We have assessed the impact of the changes being introduced as part of the Phase 5 Proposed DC Rules as having a neutral to positive impact overall.

We believe Phase 5 Proposed DC Rules would have strong positive impacts on clients and CRO Staff.

While there may be some negative impacts to mutual fund dealers, and in more limited instances to investment dealers, many of these impacts are short-term, as they relate to requirements to develop new policies, procedures and internal systems. Once developed, the existence of harmonized industry infrastructure and regulatory expectations will be positive for the industry as a whole.

The changes to the capital formula for mutual fund dealers may be significant for some dealers, which offsets the strong positive impacts to other stakeholders. As such our overall assessment of the impact of the Phase 5 Proposed DC Rules is neutral to positive.

A complete impact analysis of the Phase 5 Proposed DC Rules is attached as Appendix 8.

3.3 Regional and specific stakeholder group impacts

Mutual fund dealers registered in Quebec may have more significant impacts than mutual fund dealers registered in other provinces due to the differences between their current regulatory financial reports and the proposed Form 1.

4. Alternatives to rule consolidation considered

We did not consider any alternatives to rule consolidation, such as maintaining separate rules for investment dealers and mutual fund dealers as, based on the feedback provided in response to CSA Position Paper 25-404, *New Self Regulatory Organization Framework*, we determined that there is general cross-stakeholder support for rule consolidation.

We considered maintaining separate financial solvency reports for mutual fund dealers and investment dealers as an alternative to a consolidated Form 1. We chose to propose a consolidated financial report to ensure consistency in measuring and monitoring the financial solvency of dealers, while maintain flexibility to introduce customized schedules and reporting lines for each dealer type. Based on feedback from public commenters and advisory committees, stakeholders generally support our approach.

5. Questions

While comment is requested on all aspects of the Phase 5 Proposed DC Rules, comment is also specifically requested on the following questions:

Question #1 - Definition of “complaint”

The proposed definition of “complaint” includes current and former clients. Should “prospective clients” also be included, as they are in the current MFD Rules? Do “prospective clients” generate a significant number of substantive complaints that present a material regulatory concern, rather than just service issue?

Question #2 - Definition of “serious misconduct”

Does the proposed definition of “serious misconduct” cover the appropriate elements that should be reported, investigated, and dealt with in respect of complaints?

Note that the proposed definition does not specifically include harm to the Dealer. Should it encompass conduct that harms the Dealer, even where that harm **does not** pose a reasonable risk of material harm to clients or the capital markets, nor result in material non-compliance with applicable laws?

Question #3 - Definition of “non-reportable complaints”

Is the definition of “non-reportable complaints” appropriate to minimize reporting where there is no material risk of harm to clients or the capital markets, or instances of non-compliance, while still ensuring that material complaints are addressed?

Question #4 - Time limit to provide a substantive response letter

Is the 90-day time limit to provide a substantive response letter to a complainant appropriate, given that the Autorité des marchés financiers has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*)?

Question #5 - Time limit applicable to internal dispute resolution

Is the proposed time limit for internal dispute resolution processes reasonable, considering the need to balance an expedient resolution for clients while still allowing an appropriate amount of time for Dealers to determine an effective and fair resolution?

Question #6 - Client reporting

Do you agree with our assessment of the areas where the proposed harmonization is consistent with current requirements and Dealer practices and therefore no significant negative impact has been introduced for Dealers and clients as a result? If not, please explain.

Do you agree with our assessment of those areas where the proposed harmonization may impact some Dealers, but that the benefits of such harmonization outweigh the costs to the affected Dealer? If not, please explain.

Question #7 - Use of free credit client cash

Is it appropriate to extend the ability to use free credit client cash to level 3 mutual fund dealers in addition to level 4 mutual fund dealers?

Question #8 - Transition period for Form 1 capital formula and provider of capital charge

Is the phased approach we propose, for mutual fund dealers to adopt the new DC Rules Form 1 capital formula and the provider of capital concentration charge, an appropriate approach and transition period?

Question #9 - Transition period for mutual fund dealers' auditor approval

Should the proposed requirements for approval of mutual fund dealers' auditors as panel auditors be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?

Question #10 - Form 1 schedules

Where we have proposed separate schedules for mutual fund dealers and investment dealers in the new DC Rules Form 1 (e.g. client trading accounts, broker trading accounts, FX margin, concentration etc.), are these separate schedules appropriate or should we consider one combined schedule for both mutual fund dealers and investment dealers?

Question #11 – Concentration for diversified investment products

The current concentration schedule allows Dealers to look through to underlying securities where the concentrated product is a broad based index. Does the proposed change allowing this approach on a broader basis to diversified investment products such as mutual funds that have a basket of underlying investment products (not including derivatives) provide sufficient operational flexibility to Dealers in managing potential concentration exposures? Or, should we consider excluding these types of fund products from concentration testing based on their risk profile?

Question #12 - Transition period for counterparty margin

To what extent is it appropriate to apply a phase-in approach for mutual dealers to adopt the counterparty margin requirements for acceptable counterparties and regulated entities? What is an appropriate extended transition period?

Question #13 – Rule consolidation project

Considering all the phases of this project, are the proposed DC Rules aligned with the objectives of the project? To what extent have the proposed DC Rules introduced excessive regulatory burden?

6. Policy Development Process

6.1 Regulatory purpose

We took the public interest into consideration when developing the Phase 5 Proposed DC Rules and we believe the proposals achieve their intended objective of ensuring that like

dealer activities will be regulated in a like manner while minimizing regulatory arbitrage between investment dealers and mutual fund dealers.

We also believe the Phase 5 Proposed DC Rules will foster public confidence in capital markets by ensuring all CIRO Dealer Members will be held to standards of conduct that foster fair, equitable and ethical business standards and practices.

6.2 Regulatory process

The Board of Directors of CIRO (**Board**) has determined the Phase 5 Proposed DC Rules to be in the public interest and on March 19, 2025, approved them for public comment.

We consulted with the following CIRO advisory committees on this matter:

- Investor Advisory Panel (IAP),
- Conduct, Compliance and Legal Advisory Section (CCLS),
- Financial and Operations Advisory Section (FOAS),
- Panel Auditor's Committee,
- Form 1 Consultation Group including mutual fund dealer and investment dealer representatives,
- Regional Councils,

as well as a targeted ad-hoc committee comprised of mutual fund dealers.

After considering the comments received in response to this Request for Comments together with any comments of the CSA, CIRO staff may recommend revisions to the Phase 5 Proposed DC Rules. Such revisions will be submitted to the Board for approval for republication together with revisions to other Proposed DC Rules published in previous phases.

6.3 CIRO advisory committee feedback

We have received overall positive feedback regarding the Phase 5 Proposed DC Rules from our advisory committees except for our proposals:

- to extend use of free credit client cash to Level 4 mutual fund dealers as the IAP expressed concerns that this could increase risk to clients, and mutual fund dealers might not compensate clients for this additional risk. We believe that the requirements for mutual fund dealers to comply with the free credit client cash segregation limit and to provide disclosures to clients about the use of their cash are sufficient to mitigate these risks. These requirements were established for investment dealers that use free credit client cash in their operations, and no adverse consequences to clients have been noted from this practice,
- to allow different standards for mutual fund dealers that choose not to offer margin or use free credit client cash. The FOAS capital subcommittee suggested that financial standards should be harmonized across all dealers. They argued that requiring some mutual fund dealers to comply with different standards would create too much complexity and confusion about which rules apply. We chose to give mutual fund dealers the option of offering margin accounts or using free credit client cash, provided they

comply with higher standards. We believe this approach avoids unnecessary regulatory burden on mutual fund dealers that prefer to maintain a simple business model without offering margin or using free credits. We believe the provisions introduced in DC Rule subsections 4382(2) and 5112(2) along with the descriptions in the notes and instructions to the statements and schedules in DC Rule Form 1, provide sufficient clarity for mutual fund dealers to identify the applicable requirements if they choose to offer margin accounts or use free credit client cash,

- to remove the requirement for Dealers to disclose non-arms length transactions in the account statements to clients. (see the proposal in section 2.6.4.2 of this Bulletin). The IAP raised concerns that simply relying on such disclosure in the relationship disclosure and trade confirmations alone, can come with net loss for investors. The account statement disclosure requirement is currently unique to investment dealers, and it is not required under the MFD Rules nor National Instrument 31-103. We considered different alternatives under the consolidated rules, including keeping the status quo. Adopting common conflicts of interest requirements with double standards is not advisable, since we are striving for a level playing field. Between the alternative of aligning under the IDPC Rules approach or the MFD Rule/National Instrument 31-103 approach, we believe the second alternative offers a more balanced and impactful solution because such an approach:
 - would also align CISO's Dealer Members' practices with those of securities registrants that adhere to the National Instrument 31-103 reporting requirements (e.g. Quebec mutual fund dealers, portfolio managers, investment fund managers);
 - does not require mutual fund dealers to change their systems and incur costs associated with modifying their accounts statements to conform with the more onerous disclosure standard; in comparison investment dealers can and may choose to maintain their status quo; and
 - does not necessarily come with a net loss for the investor, in view of the enhanced Dealer obligation, post Client Focused Reforms, to address conflicts of interest in the client's best interest (beyond disclosure) following empirical data suggesting that disclosure alone, or over disclosure, is not always effective.
- to retain a 90-day timeline for Dealer Members to provide a substantive response to a complaint as per Companion Policy 31-103. The IAP expressed a desire to have a shortened complaint handling timeline. We have asked a question in the present Bulletin seeking public comment on whether a 90-day time limit to provide a substantive response letter to a complainant is appropriate.

7. Appendices

[Appendix 1](#) – Phase 5 Proposed DC Rules (clean)

[Appendix 2](#) – Phase 5 Proposed DC Rules (blackline)

[Appendix 3](#) – Phase 5 Proposed DC Form 1 (clean)

[Appendix 4](#) – Phase 5 Proposed DC Form 1 (blackline)

[Appendix 5](#) – Table of Concordance

[Appendix 6](#) – Proposed Serious Misconduct Definition Comparison Table

[Appendix 7](#) – Impact Analysis of the Phase 5 Proposed DC Rules

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

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

RULE 1100 | APPLICATION AND INTERPRETATION

1101. Introduction

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

1102. General application

- (1) *Corporation requirements* apply to *Dealer Members* and, if the context is appropriate, their *Approved Persons* and employees.
- (2) Certain requirements within these *Rules* also apply to all *Regulated Persons* other than those referred to in subsection 1102(1). Specific reference is made to *Regulated Persons* where a requirement is applicable to all *Regulated Persons*.
- (3) In the event a *Dealer Member* is registered under *securities laws* as a mutual fund dealer and an investment dealer, the *Dealer Member* and its *Approved Persons* are exempt from *Corporation requirements* that are only applicable to mutual fund dealers, provided they comply with the corresponding *Corporation requirements* that are applicable to investment dealers.
- (4) A *Mutual Fund Dealer Member* is prohibited from:
 - (i) offering its clients:
 - (a) a derivatives account,
 - (b) a discretionary account,
 - (c) a managed account,
 - (d) a margin account, except where it is offered in accordance with subsection 5112(2), or
 - (e) an order execution only account,
 - (ii) underwriting new issue distributions,
 - (iii) borrowing fully paid *securities* from clients,
 - (iv) issuing *research reports*, and
 - (v) using clients' *free credit balances*, except where they are used in accordance with subsection 4382(2).
- (5) A *Mutual Fund Dealer Member* or its *Approved Persons* shall not, directly or indirectly, engage in any *securities and derivatives related business* except in accordance with the following:
 - (i) all such *securities and derivatives related business* is carried on for the account of the *Mutual Fund Dealer Member*, through the facilities of the *Mutual Fund Dealer Member* (except as expressly provided for in these *Rules*) and in accordance with these *Rules*, other than:
 - (a) such business as it relates solely to trading in deposit instruments conducted by any *Approved Person* not on account of the *Mutual Fund Dealer Member* and,
 - (b) such business conducted by an *Approved Person* as an employee of a *chartered bank* and in accordance with the Bank Act (Canada) and the regulations

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

- (ii) the relationship between the *Mutual Fund Dealer Member* and any person conducting *securities and derivatives related business* on account of the *Mutual Fund Dealer Member* is that of:
 - (a) an employer and employee, in compliance with section 2551,
 - (b) a principal and agent, in compliance with Rule 2300 and section 2551, or
 - (c) an *introducing broker* and *carrying broker*, in compliance with Part A of Rule 2400.
- (iii) the trade name under which such *securities and derivatives related business* is conducted is in accordance with Part E of Rule 2200.

1103. General interpretation

- (1) References to:
 - (i) a *Dealer Member* include its *Approved Persons* and employees, if the context is appropriate,
 - (ii) a *Dealer Member's* board of directors include a *Dealer Member's* equivalent governance body for a *Dealer Member* that is not a corporation,
 - (iii) a corporation, as a type of entity to which the *Corporation requirements* apply, includes unincorporated entities if the context is appropriate, and
 - (iv) provinces include all provinces and territories of Canada.
- (2) If the context requires, words in the singular may include the plural and words in the plural may include the singular.
- (3) All times referred to in the *Corporation requirements* are Eastern Standard Time, or Eastern Daylight Savings Time when in effect, unless stated otherwise.
- (4) In the event of any dispute as to the intent or meaning of any provisions within the *Corporation requirements*, the interpretation of the *Board* is final, subject to any review or appeal procedures that may be available.

RULE 1200 | DEFINITIONS

1201. Definitions

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

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

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

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

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

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

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

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

1202. – 1299. Reserved.

[...]

RULE 2400 | ACCEPTABLE BACK OFFICE AND SERVICE ARRANGEMENTS

2401. Introduction

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

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

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

Part A.1 – General requirements

[sections 2403 through 2409]

Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements

[section 2410]

Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements

[section 2415]

Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements

[section 2420]

Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements

[section 2425]

Part A.6 – Specific requirements for Type 5 introducing broker / carrying broker arrangements between *Mutual Fund Dealer Members*

[section 2430]

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

[sections 2435 and 2436]

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

[sections 2460 and 2461]

Part D – Prohibited back office sharing arrangements

[section 2480]

Part E – Service arrangements

[section 2490]

2402. Definitions

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

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

PART A – ARRANGEMENTS BETWEEN TWO DEALER MEMBERS – GENERAL REQUIREMENTS

PART A.1 –GENERAL REQUIREMENTS

2403. Arrangements that may be executed

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

- (i) a Type 1 or 2 *introducing broker / carrying broker arrangement* for all of its *Dealer Member related activities*, or
 - (ii) a Type 3 or 4 *introducing broker / carrying broker arrangement* for one or more of its *Dealer Member related activities business lines*.
- (2) A *Mutual Fund Dealer Member* that wants to become an *introducing broker* may enter into one of the following *introducing broker / carrying broker arrangements*:
- (i) a Type 1 or 2 *introducing broker / carrying broker arrangement* with an *Investment Dealer Member* for all its *Dealer Member related activities*,
 - (ii) a Type 3 or 4 *introducing broker / carrying broker arrangement* with an *Investment Dealer Member* for one or more of its *Dealer Member related activities business lines*, or
 - (iii) a Type 5 *introducing broker / carrying broker arrangement* with a *Mutual Fund Dealer Member* for one or more of its *Dealer Member related activities business lines*.
- (3) An *Investment Dealer Member* may carry accounts for a *Mutual Fund Dealer Member* if the *introducing broker / carrying broker arrangement* satisfies the following requirements:
- (i) For activities performed by the *carrying broker* on the *introducing broker's* behalf:
 - (a) the *carrying broker* will be subject to and must comply with the applicable rule requirements for *Investment Dealer Members* within the *Corporation requirements*,
 - (b) the *carrying broker* must perform these activities in a manner that does not interfere with the *introducing broker's* ability to meet its compliance obligations under sub-clause 2403(3)(ii)(a), and
 - (c) both the *introducing broker* and the *carrying broker* retain joint responsibility for:
 - (I) the proper performance of the activities, and
 - (II) compliance with the applicable rules.
 - (ii) For activities other than those performed by the *carrying broker* on the *introducing broker's* behalf:
 - (a) the *introducing broker* will be subject to and must comply with the applicable rule requirements for *Mutual Fund Dealer Members* in the *Corporation requirements*,
 - (b) the *introducing broker* must perform these activities in a manner that does not interfere with the *carrying broker's* ability to meet its compliance obligations under sub-clause 2403(3)(i)(a), and
 - (c) the *introducing broker* retains sole responsibility for:
 - (I) the proper performance of the activities, and
 - (II) compliance with the applicable rules.

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

- (1) A *Dealer Member* that is an *introducing broker* under a *Type 1 introducing broker / carrying broker arrangement* with another *Dealer Member*:
 - (i) must not enter into any additional *introducing broker / carrying broker arrangements* with another *Dealer Member*,
 - (ii) must not self-clear any part of its *Dealer Member related activities*, and
 - (iii) must use its *carrying broker's* facilities for its principal trading, settlement, and *securities* custody.

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

- (1) A *Dealer Member* that is an *introducing broker* under a *Type 2 introducing broker / carrying broker arrangement* with another *Dealer Member*:
 - (i) must not enter into any additional *introducing broker / carrying broker arrangements* with another *Dealer Member*,
 - (ii) must not self-clear any part of its *Dealer Member related activities*, and
 - (iii) may use brokers other than its *carrying broker* for its principal trading, settlement, and *securities* custody.

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

- (1) A *Dealer Member* that is an *introducing broker* under a *Type 3 or 4 introducing broker / carrying broker arrangement* with another *Dealer Member*:
 - (i) must not enter into any *Type 1 or 2 introducing broker / carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,
 - (ii) may, where a business case can be made, enter into additional *Type 3, 4 or 5 introducing broker / carrying broker arrangements* ,
 - (iii) may self-clear any part of its *Dealer Member related activities* business lines, and
 - (iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and *securities* custody.

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

- (1) A *Mutual Fund Dealer Member* that is an *introducing broker* under a *Type 5 introducing broker / carrying broker arrangement* with another *Mutual Fund Dealer Member*:
 - (i) must not enter into any *Type 1 or Type 2 introducing broker / carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,
 - (ii) may, where a business case can be made, enter into additional *Type 3, 4 or 5 introducing broker / carrying broker arrangements* ,
 - (iii) may self-clear any part of its *Dealer Member related activities* business lines, and

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

2408. Introducing/carrying broker arrangement exemption

- (1) Where the *Dealer Member* provides a reasonable business case, the *Corporation* may grant the *Dealer Member* an exemption from one or more of the requirements in sections 2403 through 2407.
- (2) The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member's* clients, the public or the *Dealer Member*.
- (3) In granting such an exemption under subsection 2408(1), the *Corporation* may impose any terms and conditions it considers necessary.

2409. Requirement for an agreement

- (1) A *Dealer Member* that is an *introducing broker* may enter into an arrangement permitted in sections 2403 through 2407 with another *Dealer Member* if both parties enter into a written *introducing broker / carrying broker* agreement:
 - (i) in a form acceptable to the *Corporation*,
 - (ii) that specifies the type of arrangement being entered into as a Type 1, 2, 3, 4 or 5 *introducing broker / carrying broker arrangement*,
 - (iii) whose terms comply with the requirements of Rule 2400 that apply to the type of arrangement being entered into, and
 - (iv) which is approved by the *Corporation* in advance of it coming into effect.

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$75,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin:
 - (a) for client business it carries for the *introducing broker*, and
 - (b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits

- (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:
 - (a) the margin requirement,
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and
 - (c) the *introducing broker's* excess risk adjusted capital.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.
- (6) Net client balances / funding
 - (i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*
 - (i) The *carrying broker* must:
 - (a) segregate security deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.
 - (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report*:
 - (I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2410(4), and
 - (II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,
 - and,
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).
- (8) Concentration calculations
 - (i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities

- (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.
- (10) Free credit segregation
 - (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account, the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*,
 - and
 - (b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).
- (14) Parties to margin and *guarantee* documents

- (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) To ensure ongoing disclosure of the *introducing broker / carrying broker* relationship to clients, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required.
- (16) Clients introduced to the *carrying broker*
 - (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.
- (17) Compliance with non-financial requirements
 - (i) The *introducing broker* and the *carrying broker* are jointly and severally responsible for compliance with all non-financial *Corporation requirements* for each account the *introducing broker* introduces to the *carrying broker* unless stated otherwise in this section.
- (18) Handling client cash
 - (i) The *introducing broker* must not accept or handle client funds in the form of money.
 - (ii) With the *carrying broker's* advance approval, the *introducing broker* may accept a cheque in the *carrying broker's* name from a client whose account is carried by the *carrying broker* and:
 - (a) deliver it to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*, or
 - (b) arrange for the *carrying broker* to pick it up on the day it is received by the *introducing broker* or the next *business day*.
 - (iii) A client may send a cheque directly to the *carrying broker*.
- (19) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2411. – 2414. Reserved.

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin:
 - (a) for client business it carries for the *introducing broker*, and
 - (b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2415(3) by the least of the following amounts:
 - (a) the margin requirement,
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and
 - (c) the *introducing broker's* excess *risk adjusted capital*.Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.
- (6) Net client balances / funding
 - (i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*
 - (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.
 - (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report*:

- (I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2415(4), and
 - (II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,
 - and,
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2415(7)(ii)(a).
- (8) Concentration calculations
- (i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
- (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation.
- (10) Free credit segregation
- (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
- (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
- (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,

- (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*, and
 - (b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(13)(i)(a).
- (14) Parties to margin and *guarantee* documents
 - (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
 - (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2415(15)(i)(b)(II) is not required.
 - (16) Clients introduced to the *carrying broker*
 - (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.

- (17) Compliance with non-financial requirements
 - (i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.
- (18) Handling client cash
 - (i) The *introducing broker* must not accept or handle client funds in the form of money.
 - (ii) The *introducing broker* may accept a cheque from a client in the name of the *introducing broker* or *carrying broker*, provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*.
- (19) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2416. – 2419. Reserved.

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

2420. Type 3 introducing broker/carrying arrangement – requirements

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin:
 - (a) for principal business it introduces to the *carrying broker*, and
 - (b) for client business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2420(3) by the lesser of the following amounts:
 - (a) the margin requirement, and

- (b) the loan value of any *introducing broker* deposits held by the *carrying broker*. Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
- (i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and *monthly financial report* all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.
 - (ii) The *carrying broker* must report on its Form 1 and *monthly financial report* one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.
 - (iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.
- (6) Net client balances / funding
- (i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*
- (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.
 - (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2420(4), and
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2420(7)(ii)(a).
- (8) Concentration calculations
- (i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
- (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to *segregation*.
- (10) Free credit segregation

- (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457 and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must advise the client of:
 - (a) its relationship to the *carrying broker*, and
 - (b) the client's relationship to the *carrying broker*.
- (14) Parties to margin and *guarantee* documents
 - (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and

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

- (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outline the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

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

(16) Clients introduced to the *carrying broker*

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

(17) Compliance with non-financial requirements

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

(18) Handling client cash

- (i) The *introducing broker* may accept or handle client funds in the form of money.
- (ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:
 - (a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or
 - (b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

- (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
- (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2421. – 2424. Reserved.

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin:
 - (a) for principal business it introduces to the *carrying broker*, and
 - (b) for client business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 7 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2425(3) by the lesser of the following amounts:
 - (a) the margin requirement, and
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and the *monthly financial report* all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.
 - (ii) The *carrying broker* must report on its Form 1 and *monthly financial report* one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.
 - (iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.
- (6) Net client balances / funding
 - (i) The *introducing broker* must meet financing requirements for client accounts it introduces to the *carrying broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*

- (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.
- (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2425(4), and
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report* any remaining deposits not classified as a non-allowable asset under sub-clause 2425(7)(ii)(a).
- (8) Concentration calculations
 - (i) When completing the concentration calculations in Schedules 11 and 15 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
 - (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation.
- (10) Free credit segregation
 - (i) The *introducing broker* must segregate free credits for client accounts it introduces to the *carrying broker* in accordance with *Corporation requirements* including, but not limited to, Statement F of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:

- (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
- (i) At the time of opening a client account the *introducing broker* must advise the client of:
 - (a) its relationship to the *carrying broker*, and
 - (b) the client's relationship to the *carrying broker*.
- (14) Parties to margin and *guarantee* documents
- (i) The *introducing broker* and the *carrying broker* or the *introducing broker* itself, may be party to any margin agreements and *guarantee* documents.
 - (ii) Where the margin agreements or *guarantee* documents are only executed between the *introducing broker* and the client, the *introducing broker / carrying broker* agreement must provide that the *carrying broker* may protect its interest in unpaid *securities* of the *introducing broker* when the *introducing broker* becomes insolvent, bankrupt, or ceases to be a *Dealer Member*.
- (15) Disclosure on contracts, statements and correspondence
- (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
 - (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents,
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.
- However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and

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

- (16) Clients introduced to the *carrying broker*
 - (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.
- (17) Compliance with non-financial requirements
 - (i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.
- (18) Handling client cash
 - (i) The *introducing broker* may accept or handle client funds in the form of money.
 - (ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:
 - (a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or
 - (b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.
- (19) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

2426. – 2429. Reserved.

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

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

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

- (1) Minimum capital requirement
 - (i) The *carrying broker* must maintain at all times minimum capital of \$200,000 for the purposes of calculating *risk adjusted capital*.
 - (ii) The *introducing broker* must maintain at all times the minimum capital requirements of subsection 4111(3) for a Level 1, 2, 3 or 4 Dealer for the purposes of calculating *risk adjusted capital*.
- (2) Reporting of client balances

- (i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 3 of Form 1 and the *monthly financial report* all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.
- (3) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.
- (4) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.
- (5) Deposits provided to the *carrying broker* by the *introducing broker*
 - (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and *monthly financial report*.
 - (ii) The *introducing broker* must:
 - (a) report the deposits provided to the *carrying broker* as an allowable asset on the *introducing broker's* Form 1 and *monthly financial report*.
- (6) Segregating client securities
 - (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation.
 - (ii) A Level 4 Dealer *introducing broker* may hold *securities* for the accounts of clients to the extent such functions are not part of the services to be provided by the *carrying broker*.
- (7) Segregating client cash
 - (i) The *carrying broker* must segregate cash for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation of client cash by a *Mutual Fund Dealer Member*.
 - (ii) The *carrying broker* must maintain in its name any trust accounts established for holding client cash received from clients introduced by the *introducing broker*.
 - (iii) A Level 3 or 4 Dealer *introducing broker* may hold cash for the accounts of clients to the extent such functions are not part of the services to be provided by the *carrying broker* and the cash is held in trust accounts in accordance with *Corporation requirements*.
- (8) Insurance coverage requirements of the *introducing broker*

- (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (9) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (10) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*, and
 - (b) for a Level 1 Dealer *introducing broker*, obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2430(10)(i)(a), and
 - (c) for a Level 2 Dealer *introducing broker*, include an explanation that all client cheques shall be payable to the issuer or *carrying broker*, as applicable.
- (11) Disclosure on contracts, statements and correspondence
 - (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or

- (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

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

- (ii) Where the *introducing broker* is a Level 1 Dealer, the *introducing broker* and *carrying broker* must both show their names and roles on all *client communications*, advertisements and *sales communications* sent by either the *introducing broker* or *carrying broker* to clients introduced to the *carrying broker* by the *introducing broker*. The name and role of the *carrying broker* must appear in at least equal size to that of the *introducing broker*.
- (12) Clients introduced to the *carrying broker*
- (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.
- (13) Compliance with non-financial requirements
- (i) For each account it introduces to the *carrying broker*, a Level 1 Dealer *introducing broker* and its *carrying broker* are jointly and severally responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.
 - (ii) For each account it introduces to the *carrying broker*, a Level 2, 3 or 4 Dealer *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.
 - (iii) The *carrying broker* is responsible for compliance with respect to the functions it agrees to perform under the *introducing broker / carrying broker arrangement* for a Level 2, 3 or 4 Dealer *introducing broker*.
- (14) Handling client cash
- (i) A Level 1 and 2 Dealer *introducing broker* must not accept or handle client funds in the form of money.
 - (ii) A Level 2 Dealer *introducing broker* may accept a cheque from a client in the name of the *carrying broker* or issuer, provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* or issuer on the day it is received by the Level 2 Dealer *introducing broker* or the next *business day*.

- (iii) A Level 3 or 4 Dealer *introducing broker* may accept or handle client funds in the form of money.
- (iv) A Level 3 or 4 Dealer *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:
 - (a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or
 - (b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

2431. – 2434. Reserved.

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

2435. Arrangements that may be executed with a foreign affiliate

- (1) A Dealer Member may carry the client accounts of its foreign *affiliate* dealer if:
 - (i) the Dealer Member enters into an *introducing broker / carrying broker* agreement type that is permissible pursuant to sections 2403 through 2430 to be entered into between two Dealer Members,
 - (ii) the Dealer Member complies with the applicable conditions and requirements that apply to *introducing broker / carrying broker* agreement type set out in sections 2403 through 2425, including the requirement to enter into a written agreement,
 - (iii) the written agreement is:
 - (a) in a form acceptable to the Corporation,
 - (b) specifies the type of arrangement being entered into is a Type 1, 2, 3, 4 or 5 *introducing broker / carrying broker* arrangement,
 - (c) includes terms that comply with the requirements of Rule 2400 that apply to the type of arrangement being entered into, and
 - (d) approved by the Corporation in advance of it coming into effect,
- and,
- (iv) the Dealer Member complies with the additional conditions set out in section 2436.

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

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

- (1) Annual disclosure requirement
 - (i) The foreign *affiliate*, at least annually, must provide written disclosure in a form satisfactory to the Corporation, to each of its clients whose accounts are carried by the Dealer Member outlining:
 - (a) the relationship between the Dealer Member and its foreign *affiliate*,
 - (b) the relationship between the Dealer Member and the foreign *affiliate's* client,
- and

- (c) any *Investor Protection Fund* coverage limitations on those client accounts.
- (2) Foreign jurisdiction approval
 - (i) The *Dealer Member* must provide written approval of the arrangement between the *Dealer Member* and its foreign *affiliate* from the foreign *affiliate's* regulatory authority.
- (3) Responsibility for compliance
 - (i) The *Dealer Member's* foreign *affiliate* is not required to comply with *Corporation requirements* solely because of the arrangement.
- (4) Reporting balances
 - (i) When calculating *risk adjusted capital* the *Dealer Member* must report on Statement A and Schedule 3 or Schedule 4, as applicable, of Form 1 and the *monthly financial report* one balance owing to or from its foreign *affiliate* representing the accounts of the clients it carries on behalf of its foreign *affiliate*.
- (5) Segregating securities
 - (i) The *Dealer Member* must *segregate securities* it holds for its foreign *affiliate's* clients in accordance with *Corporation requirements* relating to *segregation*.
- (6) Insurance
 - (i) The *Dealer Member* must include all accounts introduced to it by its foreign *affiliate* when calculating client net equity for minimum Financial Institution Bond coverage under section 4457.

2437. – 2459. Reserved.

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

2460. Certain arrangements executed with a Canadian financial institution affiliate

- (1) A *Dealer Member's* arrangement under which employees of its *affiliate* handle *securities* clearing and settlement, maintain *records*, or perform operational functions is not considered an *introducing / carrying broker arrangement* for the purposes of Rule 2400 provided the custodial functions are handled on a segregated basis according to *Corporation requirements* and the *affiliate* is:
 - (i) a *chartered bank*,
 - (ii) an insurance company governed by federal or provincial insurance legislation, or
 - (iii) a loan or trust company governed by federal or provincial loan and trust company legislation.

2461. Certain arrangements with other dealers

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

2462. – 2479. Reserved.

PART D - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS

2480. Prohibited introducing broker / carrying broker arrangements

- (1) A *Dealer Member* must not enter into an *introducing broker / carrying broker arrangement* with any person except with:
 - (i) another *Dealer Member*, in accordance with the requirements in sections 2403 through 2430, or
 - (ii) a foreign *affiliate dealer*, in accordance with the requirements in sections 2435 and 2436.

2481. – 2489. Reserved.

PART E - SERVICE ARRANGEMENTS

2490. Acceptable service arrangements

- (1) A *Dealer Member* or *Approved Person* may enter into a *service arrangement* provided:
 - (i) both parties enter into a written agreement describing all material terms of the services to be provided,
 - (ii) a copy of the written *service arrangement*, along with any changes or notice of termination, must be provided to the *Corporation* upon request,
 - (iii) any remuneration or compensation for services provided under the *service arrangement* is paid directly to the *person* providing the services, and
 - (iv) *records* of the *service arrangement* payments are maintained in accordance with *Corporation requirements*.
- (2) A *Dealer Member* or *Approved Person* receiving services under a *service arrangement* is responsible for compliance with all relevant *Corporation requirements*, *securities laws* and *applicable laws*.
- (3) Any *person* preparing or maintaining *records* as a service for a *Dealer Member* or *Approved Person*, under a *service arrangement*, must:
 - (i) comply with the recordkeeping requirements in Rule 3800, and
 - (ii) make the *records* available for review by the *Dealer Member* or *Approved Person* and by the *Corporation* in accordance with *Corporation requirements*.
- (4) The *Corporation* may request that the *Dealer Member* or *Approved Person* provide additional information related to a *service arrangement*.

2491. – 2499. Reserved.

[...]

RULE 2700 | CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2701. Introduction

- (1) The *Corporation* requires *Approved Persons* to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies.
- (2) Rule 2700 is divided into the following parts:

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

[sections 2702 – 2755]

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

[sections 2703 and 2704]

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

[sections 2715 through 2717]

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

[sections 2725 and 2726]

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

[section 2735]

Part A.5 – Discretionary relief

[section 2745]

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

[section 2755]

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

[sections 2761-2789]

Part B.1 – Proration of Credits

[sections 2763-2765]

Part B.2 – Leaves of absence

[sections 2766-2767]

Part B.3 – Component content

[sections 2768-2771]

Part B.4 – Delivery standard

[sections 2772-2773]

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

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

2702. Definitions

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

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

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

2703. The Investment Dealer Member continuing education program

- (1) The *Investment Dealer Member continuing education program* consists of two parts:
- (i) a compliance course requirement, which is training covering ethical issues, regulatory developments and rules governing investment dealer conduct, and
 - (ii) a professional development course requirement, which is training that fosters learning and development in areas relevant to investment dealer business.
- (2) The *Investment Dealer Member continuing education program* operates in two year cycles. The first two year cycle commenced on January 1, 2018. The beginning and end of each

Investment Dealer Member continuing education program cycle is the same for all Investment Dealer Member continuing education participants.

- (3) An *Investment Dealer Member* or external course provider may provide an *Investment Dealer Member continuing education course*.
- (4) An *Investment Dealer Member* or external course provider may submit *Investment Dealer Member continuing education courses* for accreditation through the *Corporation's* accreditation process.
- (5) An *Investment Dealer Member continuing education participant* is exempt from the professional development course requirement if he or she:
 - (i) is approved in the category of an *Investment Dealer Member's Registered Representative, Associate Portfolio Manager, Portfolio Manager or Supervisor*, and
 - (ii) has been continuously approved in a retail trading capacity since January 1, 1990 or earlier by either the *Corporation*, the Toronto Stock Exchange, the Montreal Exchange, or the TSX Venture Exchange including any of their predecessors.
- (6) An *Investment Dealer Member continuing education participant* cannot receive continuing education credits for the same *Investment Dealer Member continuing education course* unless the course has been updated to contain new course content, with the exception of *Corporation* accredited ethics courses referred to in subsection 2715(3).

2704. Investment Dealer Member continuing education requirements

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

Investment Dealer Member's Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
<i>Registered Representative</i>	<i>retail client</i>	Yes	Yes
<i>Registered Representative</i>	<i>institutional client</i>	Yes	No
<i>Investment Representative</i>	<i>retail client or institutional client</i>	Yes	No
<i>Portfolio Manager</i>	<i>retail client or institutional client</i>	Yes	Yes
<i>Associate Portfolio Manager</i>	<i>retail client or institutional client</i>	Yes	Yes
<i>Trader</i>	N/A	Yes	No
<i>Supervisor of Registered Representatives</i>	<i>retail client</i>	Yes	Yes

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

Investment Dealer Member's Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
<i>Ultimate Designated Person</i>	N/A	Yes	No
<i>Chief Compliance Officer</i>	N/A	Yes	No

- (2) *Registered Representatives* dealing in mutual funds only who are an employee of a firm registered as both an investment dealer and a mutual fund dealer:
- (i) are not subject to and do not need to comply with the *Registered Representative* continuing education requirements set out in subsection 2704(1), and
 - (ii) are subject to and must comply with the continuing education requirements for individuals registered as a *Mutual Fund Dealer Member's Registered Representative* set out in Part B of this Rule 2700.
- (3) An *Investment Dealer Member continuing education participant* registered in more than one *Approved Person* category must meet the continuing education requirements of the category with the most onerous continuing education requirements.
- (4) All *Investment Dealer Member continuing education participants* must complete at least 10 hours of compliance courses in each *Investment Dealer Member continuing education program* cycle in accordance with requirements in section 2715.
- (5) An *Investment Dealer Member continuing education participant* that is subject to professional development requirements must complete at least 20 hours of professional development courses in each *Investment Dealer Member continuing education program* cycle in accordance with requirements in section 2716.

2705. – 2714. Reserved.

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

2715. The compliance course

- (1) An *Investment Dealer Member continuing education participant*:
- (i) cannot carry forward compliance course credits to satisfy continuing education requirements of a subsequent *Investment Dealer Member continuing education program* cycle,
 - (ii) may receive continuing education credit for a compliance course with an examination, only if the *Investment Dealer Member continuing education participant* successfully passes the examination, and
 - (iii) may receive continuing education credit of a maximum of five hours for compliance *Investment Dealer Member continuing education courses* offered by a foreign *securities* dealer or foreign external course provider.
- (2) An *Investment Dealer Member* may give continuing education credit for *Investment Dealer Member* compliance manual training where:

- (i) the content of the compliance manual training satisfies clause 2703(1)(i), and
 - (ii) the compliance manual training is delivered by the *Investment Dealer Member* through in-person seminars, or webinars that are accompanied by a method of evaluation.
- (3) The *Corporation* will accredit ethics courses that an *Investment Dealer Member continuing education participant* can repeat and count towards fulfillment of the compliance course requirement in two *Investment Dealer Member continuing education program* cycles.

2716. The professional development course

- (1) An *Investment Dealer Member continuing education participant* subject to the professional development requirement:
- (i) may, upon satisfying professional development requirements in the current cycle, carry forward a maximum of 10 hours of a single professional development course of at least 20 hours and completed in the last six months of the current *Investment Dealer Member continuing education program* cycle to satisfy a portion of his or her professional development course requirement in the following *Investment Dealer Member continuing education program* cycle,
 - (ii) may receive continuing education credit for successful completion of the Wealth Management Essentials Course, where completed to satisfy the post-approval proficiency requirement for *Investment Dealer Member Registered Representatives* dealing with *retail clients*, in the *Investment Dealer Member continuing education program* cycle in which the course is completed, and
 - (iii) may receive continuing education credit for a professional development course with an examination, only if the *Investment Dealer Member continuing education participant* successfully passes the examination.

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

- (1) An *Investment Dealer Member* must:
- (i) verify the *Investment Dealer Member continuing education participant's* compliance with the requirements at the end of the *Investment Dealer Member continuing education program* cycle,
 - (ii) keep evidence of an *Investment Dealer Member continuing education participant's* completion of the *Investment Dealer Member continuing education course*, which may be a certificate issued by the course provider, an attendance sheet, or bulk notice of completion,
 - (iii) keep *Investment Dealer Member continuing education program records*, including course related materials, for each *Investment Dealer Member continuing education program* cycle for a minimum of seven years following the end of the *Investment Dealer Member continuing education program* cycle,
 - (iv) designate an *individual* responsible for supervising training and approving an *Investment Dealer Member continuing education participant's* chosen *Investment Dealer Member continuing education course*,

- (v) ensure that an *Investment Dealer Member continuing education participant's* chosen *Investment Dealer Member continuing education course* satisfies the content criteria described in subsection 2703(1),
 - (vi) where the *Investment Dealer Member continuing education course* is delivered by the *Dealer Member*, evaluate an *Investment Dealer Member continuing education participant's* knowledge and understanding of the course,
 - (vii) ensure that each *Investment Dealer Member continuing education participant* meets the continuing education requirements during each *Investment Dealer Member continuing education program cycle*, and
 - (viii) update the continuing education reporting system and notify the *Corporation* within 10 *business days* after the end of the *Investment Dealer Member continuing education program cycle* of all *Investment Dealer Member continuing education participants* that have met their continuing education requirements within the prescribed cycle.
- (2) An *Investment Dealer Member* may allow an *Investment Dealer Member continuing education participant* to use the continuing education credits earned through courses or seminars completed at the *Investment Dealer Member continuing education participant's* former sponsoring *Dealer Member*. An *Investment Dealer Member* may accept a statement of completion issued by the *Investment Dealer Member continuing education participant's* former sponsoring *Dealer Member*.

2718. – 2724. Reserved.

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

2725. Participation of recently Approved Persons

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

2726. Voluntary participation in the continuing education program

- (1) Voluntary participation in the *Investment Dealer Member continuing education program* will extend the validity period of the Canadian Securities Course. This extension is valid until the end of the sixth month of the next *Investment Dealer Member continuing education program cycle*.
- (2) The *Corporation* will publish a list of courses that qualify for voluntary participation in the *Investment Dealer Member continuing education program*.

- (3) A former *Investment Dealer Member's Approved Person* may voluntarily participate in the *Investment Dealer Member continuing education program* by completing a course or courses on the list referred to in subsection 2726(2).
- (4) To extend the validity period, a former *Investment Dealer Member's Approved Person* must complete the course or courses on the list referred to in subsection 2726(2) in the *Investment Dealer Member continuing education program cycle* in which the Canadian Securities Course expired.
- (5) A former *Investment Dealer Member's Approved Person* may voluntarily participate in the *Investment Dealer Member continuing education program* to extend the validity of the Canadian Securities Course for only one *Investment Dealer Member continuing education program cycle*.

2727. – 2734. Reserved.

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

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

- (1) An *Investment Dealer Member continuing education participant* who changes his or her *Approved Person* category during an *Investment Dealer Member continuing education program cycle* must complete the continuing education requirements applicable to the new *Investment Dealer Member's Approved Person* category in the same *Investment Dealer Member continuing education program cycle*.
- (2) Notwithstanding subsection 2735(1), an *Investment Dealer Member continuing education participant* who changes his or her *Investment Dealer Member's Approved Person* category during the last six months of the current *Investment Dealer Member continuing education program cycle*, becomes subject to the applicable continuing education requirements of the new *Investment Dealer Member's Approved Person* category at the beginning of the next *Investment Dealer Member continuing education program cycle*.
- (3) An *Investment Dealer Member continuing education participant* may not change to an *Approved Person* category with less onerous continuing education requirements to avoid completing the more onerous continuing education requirements of a former *Investment Dealer Member's Approved Person* category, or penalties for non-completion of continuing education requirements. Any change to the *Approved Person* category during the last six months of the *Investment Dealer Member continuing education program cycle* which results in less onerous continuing education requirements must be accompanied by an explanation from the sponsoring *Dealer Member* to satisfy the *Corporation* that the category change is not an avoidance measure.

2736. – 2744. Reserved.

PART A.5 – DISCRETIONARY RELIEF

2745. Discretionary Relief

- (1) The *Corporation* may extend the time an *Investment Dealer Member continuing education participant* has to complete any *Investment Dealer Member continuing education course*

beyond the two year *Investment Dealer Member continuing education program* cycle due to, but not limited to, an illness if:

- (i) an *Executive* at the *Investment Dealer Member continuing education participant's* sponsoring *Dealer Member*:
 - (a) approves the extension,
 - (b) notifies the *Corporation* of the reason for the extension, and
 - (c) proposes the new date of completion of the required course,

and

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

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

- (i) an *Executive* at the *Investment Dealer Member continuing education participant's* sponsoring *Dealer Member*:
 - (a) approves the exemption,
 - (b) notifies the *Corporation* of the reason for the exemption, and
 - (c) states that the leave is for an indefinite period,

and

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

- (3) An *Investment Dealer Member continuing education participant* who is granted an exemption under subsection 2745(2) and returns to the industry after an absence of:
 - (i) three years or less must have the *Corporation* determine the continuing education requirements before he or she resumes any activity that needs approval, or
 - (ii) more than three years must meet the applicable proficiency and registration requirements for his or her *Investment Dealer Member's Approved Person* category.

2746. – 2754. Reserved.

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

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

- (1) On the last *business day* of the first month of an *Investment Dealer Member continuing education program* cycle, the *Corporation* will automatically suspend the approval of the *Investment Dealer Member continuing education participant* if:
 - (i) an *Investment Dealer Member continuing education participant* fails to complete the continuing education requirements for the previous *Investment Dealer Member continuing education program* cycle within the prescribed cycle, or

- (ii) the sponsoring *Dealer Member* fails to update the continuing education reporting system and notify the *Corporation* as required by clause 2717(1)(vii).
- (2) A sponsoring *Dealer Member* that fails to comply with the requirements of clause 2717(1)(vii) will be liable for and pay the *Corporation* such fees as the *Board* may prescribe from time to time.
- (3) The *Corporation* may reinstate the *Investment Dealer Member continuing education participant's* approval after the sponsoring *Dealer Member* has notified the *Corporation* in writing that the *Investment Dealer Member continuing education participant* has completed the continuing education requirements.
- (4) If a sponsoring *Dealer Member* pays a fine in error, the *Corporation* will issue a refund provided the *Dealer Member* requests a refund within 120 days of the date the invoice is issued by the *Corporation*.

2756. – 2760. Reserved.

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

2761. Definitions

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

"date of participation" (<i>date de participation</i>)	The date upon which a <i>Mutual Fund Dealer Member's Approved Person</i> was approved, under the Rules, in one or more categories set out under Rule 2600.
"Filer" (<i>déposant</i>)	Any <i>Approved Person, Dealer Member, individual</i> , or entity authorized by the <i>Corporation</i> to file continuing education credit completion reports with the <i>Corporation</i> on behalf of a <i>Mutual Fund Dealer Member's Approved Persons</i> and <i>Mutual Fund Dealer Members</i> .
"CE reporting and tracking system" or CERTS (<i>système de suivi et de rapport de la FC ou SSRFC</i>)	The online system established for the purpose of administering the <i>Mutual Fund Dealer Members'</i> continuing education program.
"MFDM CE credit" (<i>crédit en FC des CMEC</i>)	Any continuing education credit that meets the requirements set out in Part B of Rule 2700, including credits for the Business Conduct component, Compliance component, and Professional Development component.
"Participant" (<i>participant</i>)	Any <i>Mutual Fund Dealer Member's Approved Person</i> who is approved, during a cycle, as a <i>Registered Representative, Chief Compliance Officer or Ultimate Designated Person</i> , or <i>Supervisor</i> under these Rules.
"Provider" (<i>prestataire</i>)	Any <i>individual</i> or entity offering a continuing education activity.

2762. Mutual Fund Dealer Member continuing education

- (1) **Compliance with Mutual Fund Dealer Member continuing education Requirements.** Each *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member's Approved Person* shall comply with continuing education requirements applicable to them, as set out under part B of Rule 2700.
- (2) **Registered Representative.** For each cycle, every *Approved Person* who is approved as a *Mutual Fund Dealer Member's Registered Representative* under Rule 2600 must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.
- (3) **Chief Compliance Officer, Ultimate Designated Person and Supervisor.** Where an *Approved Person* is not approved as a *Mutual Fund Dealer Member's Registered Representative*, but is approved as either a *Chief Compliance Officer* or *Ultimate Designated Person*, or *Supervisor* under the Rules, that *individual* must, for each cycle, complete 8 Business Conduct Credits, and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.
- (4) **Continuing education requirements for a Partial Cycle.**
 - (i) **Non-Application.** A *Mutual Fund Dealer Member's Approved Person* is not required to meet requirements specified under subsections 2762(2) or 2762(3) where, in any given cycle, the *Mutual Fund Dealer Member's Approved Person* is subject to that component requirement for a period that is less than, or equal to, 2 months.
 - (ii) **Pro-ration of Credits.** Where a *Mutual Fund Dealer Member's Approved Person* is subject to a requirement specified under subsections 2762(2) or 2762(3) for less than a full cycle, and the period in question is greater than 2 months, the *Mutual Fund Dealer Member's Approved Person* may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Part B of Rule 2700.
- (5) **Leaves of Absence.** Where a *Mutual Fund Dealer Member's Approved Person* is subject to the requirements under subsections 2762(2) or 2762(3), and was absent, for a period of at least 4 consecutive weeks, from their employment as an *Approved Person*, the *Chief Compliance Officer* can reduce the requirements applicable to that *Approved Person* under subsections 2762(2) or 2762(3), in accordance with the applicable provisions under Part B of Rule 2700.
- (6) **Accreditation.** The *Corporation* shall only recognize continuing education activities that have met the minimum requirements set out under Part B of Rule 2700.
- (7) **Evidence of Completion.** Each *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member's Approved Person* noted in subsections 2762(2) or 2762(3) must maintain evidence of completion of *MFDM CE credits* for a cycle, as required under Part B of this Rule 2700, for a 24-month period following the end of that cycle.
- (8) **Reporting.** *Mutual Fund Dealer Member* and each *Mutual Fund Dealer Member's Approved Person* noted in subsections 2762(2) or 2762(3) must meet the minimum requirements set out under Part B of this Rule 2700 respecting notification to the *Corporation* of the completion of *MFDM CE credits*.

(9) **Non-compliance.**

- (i) Where, for any given cycle, a *Mutual Fund Dealer Member's Approved Person* does not meet the requirements of the *Mutual Fund Dealer Member* continuing education program, that individual shall cease to act as an *Approved Person* of any *Mutual Fund Dealer Member*, until such time as the *Corporation* has determined that the prescribed requirements have been met.
- (ii) Each *Mutual Fund Dealer Member* shall be liable for and pay to the *Corporation* fees, levies, or assessments in the amounts prescribed from time to time by the *Corporation* for the failure of the *Mutual Fund Dealer Member* or a *Mutual Fund Dealer Member's Approved Person* to comply with the requirements of Part B of this Rule 2700.

PART B.1 - PRORATION OF CREDITS**2763. New Participants**

- (1) Requirements under subsections 2762(2) or 2762(3) do not apply to a *Participant* where their initial *date of participation* falls within the 23rd or 24th month of the cycle.
- (2) A *Participant*, who is in their first cycle, must satisfy the requirements for each component specified under subsections 2762(2) or 2762(3) on a pro-rata basis, where their initial date of participation falls within months 1 to 22 of that cycle. A pro-rata calculation made under this section must use the following formula:

$$\text{Total Number of Component Credits Required} = A \times B/24$$

where

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

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

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

2764. Returning Participants

- (1) A returning *Participant* who has been previously approved as a *Mutual Fund Dealer's Registered Representative, Chief Compliance Officer, Ultimate Designated Person*, or as a *Supervisor*:
 - (i) must, within 10 business days of returning as a *Participant*, satisfy their outstanding *MFDM CE credits*, if any, from the immediately preceding cycle;
 - (ii) is not required to satisfy the requirements under subsections 2762(2) or 2762(3) in the current cycle, if, as a returning *Participant*, their *date of participation* falls within the 23rd or 24th month of the cycle;

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

2765. Change in Participation

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

$$\text{Total Number of Component Credits Required} = A \times C/24$$

where

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

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

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

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

PART B.2 – LEAVES OF ABSENCE

2766. Leaves

- (1) Subsection 2762(5) permits a *Mutual Fund Dealer Member* to reduce the *MFDM CE credit* requirements applicable to a *Participant* under subsections 2762(2) or 2762(3) in circumstances where the *Participant* was absent, for a period of at least 4 consecutive weeks, from their employment as a *Mutual Fund Dealer Member's Approved Person* due to:
 - (i) Pregnancy or parental leave;
 - (ii) Personal emergency leave;
 - (iii) Family caregiver or medical leave;
 - (iv) Personal illness or injury;
 - (v) Mandatory duty as a juror or witness; or
 - (vi) Other similar leaves of absence defined under applicable provincial laws.

- (2) In order to reduce the number of *MFDM CE credit* requirements, the *Chief Compliance Officer*, or their delegate, must:
 - (i) approve the reduction in the number of *MFDM CE credits*;
 - (ii) maintain sufficient evidence and documentation to support their decision, including the following:
 - (a) how the calculation of the reduction in the number of *MFDM CE credits* was determined;
 - (b) the nature of the absence; and
 - (iii) notify the *Corporation* of the reduction in the number of *MFDM CE credits* by filing a credit reduction report with the *Corporation* no later than 10 days following the end of each cycle in which the consideration was applicable.

2767. Reduction

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

PART B.3 - COMPONENT CONTENT

2768. Introduction

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

2769. Business Conduct

- (1) Business Conduct content is educational material that promotes, directs and guides ethical and compliant conduct. It includes education regarding ethical issues, *Rules*, other applicable legislation, and *Mutual Fund Dealer Member's* policies and procedures for complying with regulatory requirements.
- (2) A single Business Conduct Credit consists of 1 hour of training in at least one of the following topic areas:
 - (i) Ethics;
 - (ii) Rules and the *Mutual Fund Dealer Member's* policies and procedures for complying with the *Rules*; and
 - (iii) Relevant legislation and its application.
- (3) For each cycle where a *Participant* is required to obtain at least 8 Business Conduct Credits, a minimum of 1 and maximum of 2 such credits must be content relating to ethics.
- (4) Ethics related content refers to content that examines ethical principles and moral or ethical problems that may arise in performing duties on behalf of a *Mutual Fund Dealer Member*, including the principles under section 1402 It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

- (5) Other business conduct topics include, but are not limited to:
- (i) Conflicts of interests;
 - (ii) Personal financial dealings;
 - (iii) Regulatory requirements and initiatives that affect *Mutual Fund Dealer Member* operations;
 - (iv) Disclosure of information to clients;
 - (v) Documentation standards;
 - (vi) Know-Your-Client;
 - (vii) Suitability and new products;
 - (viii) Know-Your-Product;
 - (ix) Anti-money laundering laws and regulations and related Member policies and procedures;
 - (x) Security and privacy of information; and
 - (xi) Complaint handling.

2770. Professional Development

- (1) Professional Development content is educational material that maintains or enhances a *Participant's* financial knowledge or proficiency.
- (2) A single Professional Development Credit consists of 1 hour of training in at least one of the following topic areas:
 - (i) Products;
 - (ii) Financial planning;
 - (iii) Retirement planning;
 - (iv) Investment strategies and asset allocation;
 - (v) Client management techniques;
 - (vi) Economics, Accounting, and Finance;
 - (vii) Tax planning;
 - (viii) Estate planning; and
 - (ix) Insurance.

2771. Compliance

- (1) Compliance content is education material relating to the conduct of *Dealer Members* and *Participants* that has been specifically designated by the *Corporation*. Compliance content will include areas relating, but not limited, to, compliance examination findings, Compliance and Enforcement priorities, and proposed Rule changes.
- (2) The two Compliance Credits must be obtained by completing continuing education activities specifically designated by the *Corporation*.

PART B.4 - DELIVERY STANDARD**2772. Providers**

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

2773. Activity requirements

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

PART B.5 - ACCREDITATION**2774. CERTS eligibility**

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

2775. Accreditors

- (1) Accreditation can be completed by:
 - (i) A *Mutual Fund Dealer Member*;
 - (ii) A Third Party recognized by the *Corporation* ("Third Party Accreditor");
 - (iii) *Chambre de la sécurité financière* ("Chambre"); or
 - (iv) the *Corporation*.

2776. Accreditation criteria

- (1) All accreditations must use standard evaluation procedures based on the following criteria:
 - (i) There are adequate learning objectives and a training plan for the activity;
 - (ii) The content of the activity is consistent with the stated learning objectives and training plan; the resources and materials provided to *Participants* support the stated learning objectives and are consistent with its content at the time of accreditation approval; and whether the activity has met its learning objectives;
 - (iii) The content of the activity meets the related minimum standards set out under Part B.3 of this Rule 2700;
 - (iv) The activity includes an adequate written plan for how it will be delivered;
 - (v) The activity is relevant to the *Participant* and/or the *Mutual Fund Dealer Member's* business;
 - (vi) The activity includes adequate details as to how attendance will be confirmed, and how completion of the activity by individual *Participants* will be recorded;
 - (vii) The qualifications and experience of the trainer and *Provider* are adequate;
 - (viii) Only one *MFDM CE credit* is assigned per one hour of training;
 - (ix) The activity has a minimum of 0.5 *MFDM CE credits* (30 minutes) of accredited content with credits rounded to the nearest quarter (0.25) credit (15 minutes); and

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

2777. Self-accreditation

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

2778. Eligibility period

- (1) Each accredited activity recognized by the *Corporation* will be assigned an eligibility period not longer than 2 years from the date of accreditation.
- (2) When the eligibility period expires or there is a material change to the activity that a *Mutual Fund Dealer Member* provides and the *Mutual Fund Dealer Member* intends to continue to offer the activity, the *Mutual Fund Dealer Member* must either re-perform self-accreditation or obtain accreditation from accreditors recognized by the *Corporation*.
- (3) A material change, for the purposes of subsection 2778(2), will have occurred when one or more of the continuing education components or content is no longer covered, the duration of the activity has changed, or testing of the activity has been removed. A material change may also occur when the format, delivery method or content has changed.

PART B.6 - EVIDENCE OF COMPLETION

2779. Documentation issued by the Provider

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

2780. Exception to maintain evidence of completion

- (1) *Mutual Fund Dealer Members* and *Participants* are not required to maintain evidence of completion for *MFDM CE credits*, where a *Provider*:
 - (i) facilitates the delivery of accredited content, which meets the requirements under Part B of this current Rule 2700;
 - (ii) maintains records related to the completion of *MFDM CE credits* by *Participants*; and
 - (iii) submits such records to the *Corporation* on behalf of such *Participants*, in accordance with the requirements Part B of this current Rule 2700.

PART B.7 - REPORTING

2781. CERTS

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

2782. Cycle

- (1) Only *MFDM CE credits* obtained during the assigned eligibility period may be used to satisfy the requirements under section 2762. *MFDM CE credits* obtained during any cycle may only

be used to satisfy the prescribed *MFDM CE credit* requirements for that cycle or a previous cycle where a *Participant* has outstanding requirements from that previous cycle.

2783. Carry forward

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

2784. Responsibility

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

2785. Participant ceases to be an Approved Person

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

PART B.8 - ASSESSMENTS

2786. Review

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

2787. Notification

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

2788. Rejection

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

PART B.9 - NON-COMPLIANCE

2789. Notification and Fees

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

- (i) the end of the cycle,
 - (ii) for a returning *Participant*, upon failure to satisfy any outstanding credits from the immediately preceding cycle, or
 - (iii) at the completion of an assessment of the records maintained by a *Participant* or *Dealer Member* where a rejection by the *Corporation* of reported *MFDM CE credits* has resulted in non-compliance for a *Participant*.
- (2) Where a *Dealer Member* has been notified of such non-compliance pursuant to subsection 2789(1), the *Dealer Member* shall have 15 days to submit a response for each non-compliance notification detailing a plan for each *Participant* to become compliant with the requirements under Part B of this current Rule 2700.
- (3) Where, after receiving and reviewing the *Dealer Member's* response, the *Corporation* has determined that a *Participant* has not met the prescribed *MFDM CE credit* requirements for a given cycle, and the *Corporation* is not satisfied with the *Dealer Member's* response, the *Corporation* shall provide notification to the *Participant's* sponsoring *Dealer Member* indicating that the *Participant* is not to act as an *Approved Person* of any *Mutual Fund Dealer Member* until such time as the *Corporation* has determined that the prescribed *MFDM CE credit* requirements have been met.
- (4) Where a *Dealer Member* has been notified pursuant to subsection 2789(3), the *Dealer Member* shall:
- (i) immediately provide appropriate notification of this matter to the applicable *Participant*, and
 - (ii) promptly take all steps necessary to ensure that all impacted clients continue to receive service in accordance with requirements under the *Rules*.
- (5) Where the *Corporation* has determined that a *Participant* has not met the prescribed *MFDM CE credit* requirements for any given cycle, as prescribed under Part B of this current Rule 2700, the *Corporation* may, for each such occurrence, impose a \$2,500 fee on the *Participant's* sponsoring *Dealer Member*.
- (6) *Dealer Members* will have 30 days from the date of notification to pay the fee in full to the *Corporation*.

2790. Reinstatement

- (1) Where the *Corporation* has provided notification to a *Participant's* sponsoring *Dealer Member* pursuant to subsection 2789(3), the *Dealer Member* and *Participant* may file *MFDM CE credit* reports for that applicable cycle for review by the *Corporation*.
- (2) Where the *Corporation* subsequently determines that the *Participant* has met the prescribed *MFDM CE credit* requirements for that applicable cycle, notification will be delivered to the *Participant's* sponsoring *Dealer Member* stating that the *Participant* is in compliance with the requirements under Part B of this current Rule 2700.

2791. – 2799. Reserved.

[...]

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

3701. Introduction

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

Part A – Reporting requirements

[sections 3710 through 3712]

Part B – Internal investigations and internal discipline

[sections 3720 through 3723]

Part C – Settlements and Confidentiality Restrictions

[sections 3730 and 3731]

Part D – Client complaints – Institutional Clients

[section 3740]

Part E – Client complaints – Retail Clients

[sections 3750 through 3759]

Part F – Legal actions

[section 3760]

Part G – Specific record retention requirements for client complaints

[section 3770]

3702. Definitions

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

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

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

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

3703. – 3709. Reserved.

PART A – REPORTING REQUIREMENTS

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

- (1) An *Approved Person* must report to the *Dealer Member* as soon as possible, but no later than within two *business days* upon becoming aware of any of the following matters:
 - (i) a change in the *Approved Person's* registration information or Form 33-109F4,
 - (ii) a reason to believe that they may have engaged, or are currently engaging, in *serious misconduct*,
 - (iii) being the subject of a client *complaint*, including a *non-reportable complaint*,
 - (iv) a client *complaint* alleging *serious client-related misconduct* by another *Approved Person* or *employee*, or
 - (v) if the *Approved Person* is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the *Dealer Member*, or concerning matters that occurred while employed by the *Dealer Member*:
 - (a) charged with, convicted of, pleading guilty or no contest to any criminal offence,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging contravention of any *securities laws or applicable laws*,
 - (c) named as a defendant or respondent in, or is the subject of any proceeding, disciplinary action or investigation alleging contravention of the requirements or policies of any regulatory organization or *SRO*, professional licensing, credentialling or registration body,
 - (d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or *SRO*, professional licensing, credentialling or registration body,
 - (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (f) outstanding garnishments rendered against the *Approved Person*, or
 - (g) any pending legal actions against the *Approved Person*, including a civil claim or arbitration notice alleging *serious misconduct*.
- (2) A *Dealer Member* must establish and maintain policies and procedures that require an *employee* report to the *Dealer Member* any of the following matters as soon as possible,

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

- (i) a reason to believe that they may have engaged or currently be engaging in *serious misconduct* while engaging in *Dealer Member related activities*,
- (ii) being the subject of a client *complaint* alleging *serious client-related misconduct*,
- (iii) a client *complaint* alleging *serious client-related misconduct* by an *Approved Person* or another *employee*, or
- (iv) if the *employee* is subject to any of the following in any jurisdiction inside or outside of Canada, while the *employee* was in the employ of the *Dealer Member* and was engaged in *Dealer Member related activities*:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to *serious misconduct*,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging *serious misconduct*,
 - (c) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory or *SRO*, professional licensing, credentialing or registration body,
 - (d) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (e) outstanding garnishments rendered against the *employee*, or
 - (f) any pending legal actions against the *employee*, including a civil claim or arbitration notice alleging *serious misconduct*.
- (3) A *Dealer Member* must designate an *individual* or department to receive, and maintain records of, the reports required by subsections 3710(1) and 3710(2).
- (4) The reporting requirement under clauses 3710(1)(v)(b) and (c) and clause 3710(2)(iv)(b) do not include disclosure of an investigation if such disclosure is prohibited by *securities laws, applicable laws*, or requirements or policies of any *SRO* or regulatory, professional licensing, credentialing or registration body.

3711. Reporting by a Dealer Member to the Corporation

- (1) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within five *business days* upon becoming aware of any of the following matters:
 - (i) a reason to believe that it, or an *Approved Person*, may have engaged or is currently engaging in *serious misconduct*,
 - (ii) a reason to believe that an *employee* may have engaged or is currently engaging in *serious misconduct* while performing *Dealer Member related activities*,
 - (iii) the *Dealer Member* or *Approved Person* or *employee* has paid substantial *compensation* to a client either directly or indirectly, including in furtherance of a settlement,
 - (iv) an internal investigation is commenced by the *Dealer Member* in accordance with section 3720,

- (v) the *Dealer Member*, or a current or former *Approved Person* is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the *Dealer Member* or concerning matters that occurred while employed by the *Dealer Member*:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging contravention of any *securities laws* or *applicable laws* related to *Dealer Member related activities*,
 - (c) named as a defendant or respondent in, or is the subject of any proceeding, or disciplinary action alleging contravention of the requirements or policies of any regulatory organization or *SRO*, professional licensing, credentialling or registration body,
 - (d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or *SRO*, professional licensing, credentialling or registration body,
 - (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (f) outstanding garnishments rendered against the *Approved Person*, or
 - (g) subject to a civil claim or arbitration notice alleging *serious misconduct*,
 - (vi) the *Dealer Member's* employee is subject to any of the following in any jurisdiction inside or outside of Canada, while performing *Dealer Member related activities* while employed by the *Dealer Member* or concerning matters that occurred while employed by the *Dealer Member*:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to *serious misconduct*,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging *serious misconduct*, or
 - (c) subject to a civil claim or arbitration notice alleging *serious misconduct*.
 - (vii) any internal disciplinary action that is taken by a *Dealer Member* against an *Approved Person* or an *employee* as a result of:
 - (a) a client *complaint* involving allegations of *serious misconduct*,
 - (b) a civil claim or arbitration notice involving allegations of *serious misconduct*, or
 - (c) an internal investigation involving allegations of *serious misconduct*.
- (2) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within 20 *business days* upon becoming aware of a *complaint* involving allegations of:
- (i) *serious misconduct* against the *Dealer Member*, or any current or former *Approved Person*, or
 - (ii) *serious client-related misconduct* against an *employee* while employed by the *Dealer Member*.

- (3) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within five *business days*, the resolution of:
 - (i) any matter set out in clauses 3711(1)(v) and 3711(vi),
 - (ii) any internal disciplinary action set out in clause 3711(1)(vii), and
 - (iii) any client *complaint* set out in clause 3711(2).
- (4) A *Dealer Member* must report to the *Corporation* as soon as possible, but no later than within 20 *business days* from the date on which an internal investigation is completed, a detailed description of the internal investigation conducted under section 3720 and its results.

3712. Reporting of Cybersecurity and Privacy Incidents

- (1) A *Dealer Member* must report to the *Corporation* any *cybersecurity incident*:
 - (i) within three calendar days upon becoming aware of a *cybersecurity incident*, and the report must include the following information:
 - (a) a description of the *cybersecurity incident*,
 - (b) the date on which or time period during which the *cybersecurity incident* occurred and the date when the *Dealer Member* became aware of it,
 - (c) a preliminary assessment of the *cybersecurity incident*, including the risk of harm to any *person* and/or impact on the operations of the *Dealer Member*,
 - (d) a description of immediate incident response steps the *Dealer Member* has taken to mitigate the risk of harm to *persons* and impact on its operations, and
 - (e) the name of and contact information for an *individual* who can answer, on behalf of the *Dealer Member*, any of the *Corporation's* follow-up questions about the *cybersecurity incident*,
 - (ii) within 30 calendar days, unless otherwise agreed by the *Corporation*, upon becoming aware of a *cybersecurity incident*, and the report must include the following information:
 - (a) a description of the cause of the *cybersecurity incident*,
 - (b) an assessment of the scope of the *cybersecurity incident*, including the number of *persons* harmed and the impact on the operations of the *Dealer Member*,
 - (c) details of the steps the *Dealer Member* took to mitigate the risk of harm to *persons* and impact on its operations,
 - (d) details of the steps the *Dealer Member* took to remediate any harm to any *persons*, and
 - (e) actions the *Dealer Member* has or will take to improve its *cybersecurity incident* preparedness.

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

3713. Failure to report

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

3714. Method of Reporting

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

3715 - 3719. Reserved.

PART B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE

3720. Requirement to commence an internal investigation

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

3721. Records of an internal investigation

- (1) For each internal investigation conducted in accordance with section 3720, the *Dealer Member* must maintain *records* in accordance with Rule 3800, showing the:
 - (i) the issues investigated,
 - (ii) the relevant factual findings,
 - (iii) the investigation steps taken, including the documents obtained and the individuals interviewed,
 - (iv) the evidence collected, and
 - (v) the conclusion made and any resulting recommendations and steps taken to resolve the matter.

3722. Internal discipline

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

3723. Exception

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

3724 - 3729. Reserved.

PART C – SETTLEMENTS AND CONFIDENTIALITY RESTRICTIONS**3730. Entering into settlements**

- (1) *Approved Persons* and *employees* must obtain the *Dealer Member's* written consent before entering into any settlements with a client, regardless of the form of the settlement and regardless of whether the settlement is the result of a client *complaint* or a finding by the *Approved Person* or the *employee* or the *Dealer Member*.
- (2) A *Dealer Member* must keep a record of the prior written consent in accordance with section 3803.
- (3) Subsection 3730(1) does not apply to settlements entered into by an *Approved Person* or *employee* who is authorized by the *Dealer Member* to negotiate or enter into settlements in the normal course of their duties and does not arise out of activities involving the *Approved Person* or *employee*.

3731. Restrictions / Release

- (1) A *Dealer Member* must not, in a release entered into between a *Dealer Member* and a client or otherwise, impose confidentiality or similar restrictions aimed at preventing a client from:
 - (i) initiating a *complaint* to the *securities regulatory authorities*, *SROs* or other enforcement authorities,
 - (ii) continuing with any pending *complaint* in progress,
 - (iii) participating in any further proceedings by such authorities., or
 - (iv) communicating or sharing information with the *securities regulatory authorities*, *SROs* or other enforcement authorities.

3732. – 3739. Reserved.

PART D – CLIENT COMPLAINTS – INSTITUTIONAL CLIENTS**3740. Complaint policies and procedures**

- (1) The *Dealer Member's* policies and procedures must specifically address dealing effectively with *institutional client complaints* received.
- (2) The *Dealer Member's* policies and procedures must specifically address the following:
 - (i) the *Dealer Member* must acknowledge all written *institutional client complaints* alleging *serious client-related misconduct*,

- (ii) the *Dealer Member* must acknowledge all verbal *institutional client complaints* alleging *serious client-related misconduct* where a preliminary investigation indicates that the allegation may have merit,
 - (iii) the *Dealer Member* must convey the results of its investigation, if any, of a *complaint* to the *institutional client* in due course,
 - (iv) the *Dealer Member* must ensure that the *Approved Person* and their *Supervisor* is aware of all *institutional client complaints* filed against the *Approved Person*,
 - (v) the *Dealer Member* must ensure that all allegations of *serious misconduct* are reported to an appropriate *Executive*, and
 - (vi) *complaints* are to be handled by a *Supervisor* and a copy must be filed with the compliance department/function (or the equivalent) of the *Dealer Member*.
- (3) If the *Dealer Member* determines that the number or severity of *complaints* is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the *Dealer Member* must:
- (i) review its internal policies and procedures,
 - (ii) ascertain the scope and severity of client detriment that might have arisen,
 - (iii) consider whether it is fair and reasonable for the *Dealer Member* to undertake proactively a redress or remediation exercise, and
 - (iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3741. – 3748. Reserved.

PART E – CLIENT COMPLAINTS – RETAIL CLIENTS

3749. Application

- (1) Part E of Rule 3700 applies to *retail clients* or persons authorized to act on behalf of *retail clients*.
- (2) Sections 3755 to 3759 apply to *complaints* submitted by a *retail client*, or a person authorized to act on behalf of a *retail client*:
 - (i) submitted in writing, or
 - (ii) alleging *serious client related misconduct*.
- (3) Any matter which is the subject of a civil action or arbitration is not considered to be a *complaint* for the purpose of section 3754.

3750. Retail client complaints

- (1) A *Dealer Member* must document and, in a manner that a reasonable *retail client* would consider effective, fair and expeditious, respond to each *retail client complaint* made to the *Dealer Member*.
- (2) A *Dealer Member* must establish and maintain policies and procedures to deal effectively, fairly and expeditiously with *retail client complaints*.

- (3) A *Dealer Member* must provide a written response to any *retail client complaint*:
 - (i) submitted in writing, or
 - (ii) alleging *serious misconduct*.

3751. Disclosure of complaint handling procedures

- (1) At the time of account opening, a *Dealer Member* must provide each new *retail client* with:
 - (i) a written summary of the *Dealer Member's complaint*-handling procedures, which is clear and can be easily understood by the client, and
 - (ii) a copy of the complaint handling process brochure, approved by the *Corporation*.
- (2) A *Dealer Member* must make available on its publicly accessible website a written summary of the *Dealer Member's complaint*-handling procedures. Where the *Dealer Member* does not have a website, the *Dealer Member* must make a written summary of their *complaint*-handling procedures available, on an ongoing basis, by other means.

3752. Handling client complaints

- (1) *Complaints* must be handled by supervisory or compliance staff and a copy of the *complaint* must be filed with the compliance department or function (or the equivalent) of the *Dealer Member*.
- (2) The *Dealer Member* must commit adequate resources, including training and support, to supervisory or compliance staff managing *complaints* and must establish clear roles and responsibility for the management of *complaints*.
- (3) The *Dealer Member* must appoint an *individual* to act as the designated *complaints* officer. The *individual* must have the requisite experience and authority to oversee the *complaint*-handling process and to act as a liaison with the *Corporation*.
- (4) An *individual* who is the subject of a *complaint* must not handle the *complaint*.
- (5) The *Dealer Member* must provide *complaint* drafting assistance to any complainant who expresses a need for it.

3753. Complaint policies and procedures

- (1) A *Dealer Member's* policies and procedures must specifically address:
 - (i) procedures for a fair and thorough investigation of *complaints*,
 - (ii) a process for assessing the merits of *complaints* with proper considerations of the facts of the case,
 - (iii) the process to be followed in determining what offer should be made to the client, where the *complaint* is assessed to have merit,
 - (iv) a description of remedial actions which may be appropriate to be taken within the *Dealer Member*,
 - (v) a process that ensures that the relevant *Approved Persons*, *employees* and their *Supervisors* are made aware of all *complaints* filed by their clients,
 - (vi) procedures to inform an appropriate *Executive* of any *serious misconduct*, and
 - (vii) procedures to monitor the general nature of the *complaints*.

- (2) If a *Dealer Member* determines that the number or severity of *complaints*, is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, the *Dealer Member* must:
 - (i) review its internal procedures and practices,
 - (ii) ascertain the scope and severity of client detriment that might have arisen,
 - (iii) consider whether it is fair and reasonable for the *Dealer Member* to undertake proactively a redress or remediation exercise, and
 - (iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3754. Reserved.

3755. Complaint acknowledgement letter

- (1) The *Dealer Member* must send an acknowledgement letter to the complainant within five *business days* of receipt of a *complaint*.
- (2) The acknowledgement letter in subsection 3755(1) must be written in plain language and be in a format readily accessible and understandable by the complainant and include the following:
 - (i) the name, job title and contact information of the *individual* at the *Dealer Member* handling the *complaint*,
 - (ii) a statement indicating that the client should contact the *individual* at the *Dealer Member* handling the *complaint* if they would like to inquire about the status of the *complaint* or provide the *Dealer Member* with any additional information,
 - (iii) an explanation of the *Dealer Member's* internal *complaint* handling process, including but not limited to the role of the designated *complaints* officer,
 - (iv) a reference to an attached copy of the *Corporation* approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,
 - (v) the 90 day time line to provide a substantive response to complainants, and
 - (vi) a statement informing the client that the *Dealer Member* may request additional information, from time to time, to investigate the *complaint*.

3756. Response to client complaints

- (1) The *Dealer Member* must send a substantive response letter to each complainant.
- (2) The substantive response letter must be written in plain language and be in a format readily accessible and understandable by the complainant.
- (3) The substantive response letter must include the following information:
 - (i) a summary of the *complaint*,
 - (ii) the result of the *Dealer Member's* investigation,
 - (iii) the *Dealer Member's* final decision on the *complaint*, including an explanation of the factors that led to the decision,

- (iv) a statement describing to the client the options available if the client is not satisfied with the *Dealer Member's* response, including the availability of:
 - (a) the *approved ombudsman service*, if a request is made within the period prescribed by the *approved ombudsman service*,
 - (b) arbitration,
 - (c) litigation/civil action, and
 - (d) any other available options,
 - (v) a statement that the client may submit a *complaint* to the *Corporation* for an assessment of whether any disciplinary action is warranted, and
 - (vi) if the *Dealer Member* offers an *internal dispute resolution service* to its *retail clients*, a statement describing the availability of an *internal dispute resolution service*, with an explanation that:
 - (a) the use of the *internal dispute resolution service* process is voluntary, and
 - (b) the *internal dispute resolution service's* timeline to provide a letter documenting the *Dealer Member's* final decision to complainants.
- (4) A *Dealer Member* must send a substantive response letter to each complainant as soon as possible and not later than 90 days from the date they received the *complaint* subject to the following:
- (i) the 90-day time line must include all internal processes of the *Dealer Member* that are made available to the client, other than the *internal dispute resolution service*,
 - (ii) the *Dealer Member* must inform the client if the *Dealer Member* is unable to provide the client with a substantive response letter within the 90-day time line and must include the reasons for the delay and the new estimated time of completion, and
 - (iii) the *Dealer Member* must inform the *Corporation* if the *Dealer Member* is unable to meet the 90-day time line and must provide reasons for the delay.
- (5) If the *Dealer Member* offers an *internal dispute resolution service* to its *retail clients*, the *Dealer Member* must establish and maintain policies and procedures that require the *internal dispute resolution service* to send a letter documenting the *Dealer Member's* final decision to each complainant as soon as possible and not later than:
- (i) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*, or
 - (ii) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter.

3757. Duty to assist in client complaint resolution

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

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

3758. Reserved.

3759. Communication of dispute resolution service options

- (1) If the *Dealer Member* or an *affiliate* of a *Dealer Member* offers an *internal dispute resolution service*, the *Dealer Member* must clearly indicate in their communications with clients the following:
- (i) the *internal dispute resolution service* is employed by the *Dealer Member* or an *affiliate* of a *Dealer Member* and is not an independent dispute resolution service,
 - (ii) a client may submit a *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the *Dealer Member* has not provided the client with a substantive response letter within 90 days as required by subsection 3756(4),
 - (iii) a client may submit their *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the client is not satisfied with the *Dealer Member's* substantive response letter,
 - (iv) the use of the *internal dispute resolution service* is voluntary,
 - (v) the client is entitled to receive a letter documenting the *Dealer Member's* final decision to each complainant, not later than:
 - (a) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*; or
 - (b) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter, and
 - (vi) that the statutory limitation periods continue to run while an *internal dispute resolution service* reviews a *complaint*, which may impact a client's ability to commence a civil action.
- (2) In referring to its *internal dispute resolution service* or to the persons assigned to its *internal dispute resolution service*, a *Dealer Member* may not use any misleading terms, including the term "ombudsman" or any other term with a similar meaning, that suggests that the *internal dispute resolution service* is independent of the *Dealer Member*.
- (3) A *Dealer Member* must clearly indicate in their communications with clients the following:
- (i) a client has 180 days after receiving the *Dealer Member's* substantive response letter referred to in section 3756 to submit their *complaint* to the *approved ombudsman service*, and
 - (ii) the services of the *approved ombudsman service* are provided free of charge.
- (4) A *Dealer Member's* disclosure of the *approved ombudsman service* must:

- (i) be at least equally prominent as the *Dealer Member's* disclosure of the *internal dispute resolution service*,
- (ii) be clear, transparent and written in plain language, and
- (iii) include the full contact information of the *approved ombudsman service*.

PART F – LEGAL ACTIONS

3760. Reporting legal actions

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

3761. – 3769. Reserved.

PART G – SPECIFIC RECORD RETENTION REQUIREMENTS FOR CLIENT COMPLAINTS

3770. Client complaints

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

3771. Client complaint file

- (1) A *Dealer Member* must retain the following information in accordance with section 3770 for each client *complaint*:
 - (i) the complainant's name,
 - (ii) the date of the *complaint*,
 - (iii) the nature of the *complaint*,
 - (iv) the name of the *individual* who is subject of the *complaint*,
 - (v) the investment products or services which are the subject of the *complaint*,
 - (vi) the materials reviewed and obtained during the *investigation*,
 - (vii) the name, title and date *individuals* were interviewed for the *investigation*, and
 - (viii) the date and conclusion of the decision rendered in connection with the *complaint*.

3772. – 3799. Reserved.

RULE 3800 | RECORDKEEPING AND CLIENT REPORTING

3801. Introduction

- (1) Maintaining complete and accurate *records* and reporting to clients in a comprehensive, meaningful and timely manner are fundamental responsibilities of a *Dealer Member*. A *Dealer Member's records* provide an audit trail to support the *Dealer Member's* supervision of its business and are necessary to prepare regulatory financial reports and to report accurately to clients.
- (2) Rule 3800 is divided into the following parts:
 - Part A – Recordkeeping requirements
 - Part A.1 – General recordkeeping requirements
[sections 3803 to 3806]
 - Part A.2 – Specific records requirements
[sections 3810 to 3819]
 - Part B – Client reporting
[sections 3850 to 3860]

3802. Definitions

- (1) The following terms have the meaning set out below when used in Rule 3800:

“automatic plan transactions” (opérations dans le cadre d’un plan automatique)	Systematic purchases, dispositions, reinvestments, withdrawals, or other payments in the issuer’s <i>investment products</i> carried pursuant to pre-determined criteria set out in an investment automatic plan.
“book cost” (coût comptable)	In the case of: (i) a long <i>investment product</i> position, the total amount paid for the <i>investment product</i>, including any <i>transaction charges</i> related to the purchase, adjusted for reinvested distributions, returns of capital and corporate actions, or (ii) a short <i>investment product</i> position, the total amount received for the <i>investment product</i>, net of any <i>transaction charges</i> related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate actions.
“connected issuer” (émetteur associé)	The same meaning as ascribed to it in <i>securities laws</i> .
In CIRO Bulletin 24-0288 we propose adding the following new terms and definitions to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
“direct investment fund charge” (frais directs du fonds d’investissement)	The amount charged to a client if the client buys, holds, sells or switches <i>securities</i> of an investment fund, including any taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses.

“fund expenses per security for the day” (<i>frais du fonds par titre le jour donné</i>)	The fund expenses per <i>security</i> of the applicable class or series of <i>securities</i> of the investment fund for the day that the client owned those <i>securities</i>, expressed in dollars, and determined by using the following formula: $A \times B = C$ where: A = the <i>fund expense ratio</i> for the day of the applicable class or series of <i>securities</i> of the investment fund; B = the <i>market value</i> of a <i>security</i> for the day of the applicable class or series of <i>securities</i> of the investment fund; C = the fund expenses per security for the day in dollars for the investment fund class or series of <i>securities</i>; and where: (i) reasonable necessary adjustments to A or B are made to accurately determine C, or (ii) reasonable approximations of any or all of A, B and C are used, subject to subsections 3854(5) and 3854(6).
“fund expense ratio” (<i>ratio des frais du fonds</i>)	The sum of an investment fund’s <i>management expense ratio</i> and <i>trading expense ratio</i>, expressed as a percentage.
“management expense ratio” (<i>ratio des frais de gestion</i>)	The same meaning as in section 1.1 of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i>.
“newly-established investment fund” (<i>nouveau fonds d’investissement</i>)	An investment fund that: (i) has yet to file the required management report of fund performance, as defined in section 1.1 of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i>, or (ii) is established less than 12 months before the end of the period covered by the fee/charges report the <i>Dealer Member</i> is required to deliver pursuant to section 3854.
“operating charge” (<i>frais de fonctionnement</i>)	Any amount charged to a client by a <i>Dealer Member</i> in respect of the operation, transfer or termination of a client’s account and includes any taxes paid on that amount.
“original cost” (<i>coût d’origine</i>)	In the case of: (i) a long <i>investment product</i> position, the total amount paid for the <i>investment product</i>, including any <i>transaction charges</i> related to the purchase, or (ii) a short <i>investment product</i> position, the total amount received for the <i>investment product</i>, net of any <i>transaction charges</i> related to the sale.
“outside holdings” (<i>portefeuille externe</i>)	Client positions that are neither held at or under the control of the <i>Dealer Member</i>:

	(i) in <i>securities</i> issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under <i>applicable laws</i> and the <i>Dealer Member</i> is the dealer of record for the client on the records of the issuer of the <i>security</i> or the records of the issuer's investment fund manager, or (ii) in any other <i>investment product</i> positions on which the <i>Dealer Member</i> receives continuing compensation payments related to the client's ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.
A similar proposal to replace the definition of “outside holding” with the above definition has also been made in CRO Bulletin 24-0288 (in the context of IDPC Rule 3800).	
“position cost” (coût de la position)	For each <i>investment product</i> position in the account and each <i>outside holding</i> position: (i) on or after December 31, 2015: (a) either <i>book cost</i> or <i>original cost</i>, determined as at the end of the applicable period, provided that only one cost calculation methodology, either <i>book cost</i> or <i>original cost</i>, is used for all positions, or (b) in the case of <i>investment product</i> positions that are transferred in, either: (I) the amount determined in sub-clause (i)(a) of this definition, or (II) the <i>market value</i> of the <i>investment product</i> position as at the date of transfer, provided that the following notification or a notification that is substantially similar identifies each position where <i>market value</i> has been used is included in the statement or report: “Market value information has been used to estimate part or all of the [book cost/original cost] of this [specify the <i>investment product</i>] position.” (ii) before December 31, 2015: (a) either <i>book cost</i> or <i>original cost</i>, determined as at the end of the applicable period, provided that only one cost calculation methodology, either <i>book cost</i> or <i>original cost</i>, is used for all positions, or (b) the <i>market value</i> of the <i>investment product</i> position as at December 31, 2015, or an earlier date if reliable information is available, provided that the following notification or a notification that is substantially similar

	position where <i>market value</i> has been used is included in the statement or report: “Market value information as at [December 31, 2015 or earlier date] has been used to estimate part or all of the [book cost/original cost] of this [specify the <i>investment product</i>] position.” (iii) where the <i>Dealer Member</i> reasonably believes it cannot determine the <i>position cost</i> in accordance with clause (i) and sub-clause (ii)(b) of this definition, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar: “The [book cost/original cost] of this [specify the <i>investment product</i>] position cannot be determined.”
A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within the above definition has also been made in CIRO Bulletin 24-0288.	
“related issuer” (<i>émetteur relié</i>)	The same meaning as ascribed to it in <i>securities laws</i>.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
“total amount of fund expenses” (<i>montant total des frais du fonds</i>)	The amount, expressed in dollars, determined by adding together the daily fund expenses for each class or series of <i>securities</i> of each investment fund owned by the client for each day that the client owned it during the reporting period, using the following formula to calculate the daily fund expenses: A x B = C where: A = the fund expenses per security for the day of the applicable class or series of <i>securities</i> of the investment fund; B = the number of the applicable class or series of <i>securities</i> of the investment fund owned by the client for that day; C = the daily fund expenses in dollars for a class or series of <i>securities</i> of the investment fund. A reasonable approximation of the total amount of fund expenses may be used, subject to subsections 3854(5) and 3854(6).
“total percentage return” (<i>taux de rendement total</i>)	The cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate into DC Rule section 3802:	
“trading expense ratio” (<i>ratio des frais d’opérations</i>)	The ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to

	its average net asset value, calculated in accordance with paragraph 12 of item 3 of Part B of Form 81-106F1 <i>Contents of Annual and Interim Management Report of Fund Performance of National Instrument 81-106 Investment Fund Continuous Disclosure</i> .
“trailing commission” (<i>commission de suivi</i>)	Any payment related to a client’s ownership of a <i>security</i> that is part of a continuing series of payments to a <i>Dealer Member</i> or any of its registered <i>individuals</i> by any party.
“transaction charge” (<i>frais liés aux opérations</i>)	Any amount charged to a client by a <i>Dealer Member</i> in respect of a transaction, other than an <i>operating charge</i> , and includes any taxes paid on that amount.

PART A – RECORDKEEPING REQUIREMENTS

PART A.1. - GENERAL RECORDKEEPING REQUIREMENTS

3803. Requirement to maintain records

- (1) A *Dealer Member* must maintain current *records* that:
 - (i) properly record its business activities, financial position, financial operating results and client transactions, and
 - (ii) demonstrate the *Dealer Member’s* compliance with *securities laws* and *Corporation requirements*.

3804. Minimum mandatory records

- (1) The *records* required under subsection 3803(1) include, but are not limited to, *records* that do the following:
 - (i) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to the *Corporation* or the applicable *securities regulatory authority*,
 - (ii) permit determination of the *Dealer Member’s* capital position,
 - (iii) demonstrate compliance with the *Dealer Member’s* capital and insurance requirements,
 - (iv) demonstrate compliance with internal control procedures,
 - (v) demonstrate compliance with the *Dealer Member’s* policies and procedures,
 - (vi) permit the identification and *segregation* of client cash, *securities*, precious metals bullion and other property,
 - (vii) identify all transactions conducted on behalf of the *Dealer Member* and each of its clients, including the parties to the transaction and the terms of the transaction,
 - (viii) provide an audit trail for:
 - (a) client instructions, orders, transactions, and required trading authorizations, and
 - (b) each trade transmitted or transaction executed for a client or by the *Dealer Member* on its own behalf,
 - (ix) permit the generation of account activity reports for clients,

- (x) provide *investment products* pricing as may be required by *securities laws*,
- (xi) document the opening of client accounts, as well as any agreements with clients and evidence that account related documents required by *Corporation requirements* have been provided to clients,
- (xii) demonstrate compliance with know-your-client, account appropriateness, product due diligence, know-your-product and suitability determination requirements,
- (xiii) demonstrate compliance with complaint handling requirements,
- (xiv) document *client communications*,
- (xv) document compliance, training, and supervision actions taken by the *Dealer Member*,
- (xvi) demonstrate compliance with conflicts of interest requirements,
- (xvii) document
 - (a) the *Dealer Member's* sales practices, compensation arrangements and incentive practices, and
 - (b) other compensation arrangements and incentive practices from which the *Dealer Member* or its *Approved Persons*, or any *affiliate* or *associate* of that *Dealer Member*, benefit,
- (xviii) demonstrate compliance with misleading communications requirements,
- (xix) demonstrate compliance with the conditions for *temporary holds*,
- (xx) demonstrate determination undertaken to classify a client as a *hedger* and as an *institutional client*,
- (xxi) document each event required to be reported to the *Corporation* under subsections 3711 and 3712,
- (xxii) document an advancement of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund *securities*, including the prior written confirmation referred to in subsection 5112(1), and
- (xxiii) document each internal investigation conducted in accordance with section 3720, including:
 - (a) the issues investigated,
 - (b) the relevant factual findings,
 - (c) the investigation steps taken, including the documents obtained and the individuals interviewed,
 - (d) the evidence collected, and
 - (e) the conclusion made and any resulting recommendations and steps taken to resolve the matter.

3805. Records retention

- (1) A *Dealer Member* must retain copies of all *records* in a safe location required under *Corporation requirements*, in durable and accessible form, for a minimum of seven years from the date the *record* is created unless *Corporation requirements* or *securities laws* relating to the specific type of *record* require a different retention period.

3806. Internal controls and access to records

- (1) A *Dealer Member* must maintain appropriate *internal controls* to:
 - (i) provide reasonable assurance that its *records*:
 - (a) are correct,
 - (b) provide clear and accurate information, and
 - (c) remain current,
 - (ii) enable timely access to records, and
 - (iii) provide for suitable back up and recovery of *records* in the event of a *significant business disruption*.
- (2) A *Dealer Member* must make its *records* available to the *Corporation* on request, in the manner requested by the *Corporation*.
- (3) A *Dealer Member* must provide the *Corporation* with statistical or other information with respect to the *Dealer Member's* business that the *Corporation* may request from time to time, acting reasonably. Such information must be provided as soon as practicable following the *Corporation's* request.

3807. – 3809. Reserved.

PART A.2. – SPECIFIC RECORDS REQUIREMENTS**3810. Transaction blotters (records of original entry)**

- (1) A *Dealer Member* must maintain blotters or other *records* of original entry by itemizing daily, the following:
 - (i) all transactions in *investment products*,
 - (ii) all receipts and deliveries of *investment products* (including certificate numbers, for certificated products),
 - (iii) all receipts and disbursements of cash, and
 - (iv) all other debits and credits.
- (2) The blotters or other *records* of original entry must contain, at a minimum, the following:
 - (i) in the case of transactions in *securities*, precious metals bullion or similar *investment products*:
 - (a) the description, class and designation of the product,
 - (b) the number, value or amount of the product and the unit and aggregate purchase or sale price (if any),
 - (c) the name or other designation of the *person* from whom or to whom the product was purchased or received or sold or delivered,
 - (d) the transaction dates, and
 - (e) the applicable account in which each transaction was effected,
 - (ii) in the case of transactions in futures contracts, forward contracts, contracts for difference and similar *derivatives*:
 - (a) the contract underlying interest,
 - (b) the contract quantity bought or sold,

- (c) if applicable, the quantity of the underlying interest bought or sold,
 - (d) if applicable, the contract delivery date,
 - (e) the price at which the contract was entered into,
 - (f) the transaction dates,
 - (g) the applicable account in which each transaction was effected,
 - (h) if applicable, the name of the product *marketplace*,
 - (i) if applicable, the name of the dealer, used by the *Dealer Member* as its *agent* to effect the transaction, and
 - (j) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*),
- (iii) in the case of transactions in options contracts, futures contract options and similar *derivatives*:
- (a) the contract underlying interest,
 - (b) the contract quantity bought or sold,
 - (c) the contract type,
 - (d) the contract premium,
 - (e) the contract exercise or striking price,
 - (f) the contract declaration date,
 - (g) the transaction dates,
 - (h) the applicable account in which each transaction was effected,
 - (i) if applicable:
 - (I) the futures contract that is the subject of the futures contract option,
 - (II) the delivery month and year of the futures contract that is the subject of the futures contract option,
 - (j) if applicable, the name of the product *marketplace*,
 - (k) if applicable, the name of the dealer used by the *Dealer Member* as its *agent* to effect the transaction, and
 - (l) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*).

3811. General ledger of accounts

- (1) A *Dealer Member* must maintain a general ledger (or other *records*) with an itemized account detail of all assets, liabilities, income, expense and capital accounts.

3812. Itemized client ledger accounts

- (1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other transactions of *investment products* for such account and all other debits and credits to such account.
- (2) When a *Dealer Member* receives *investment products* or other property to margin, *guarantee*, or secure the transactions of a client's account, the ledger must contain, at a minimum, the following:
 - (i) a description of the *investment product* or other property received,

- (ii) the date when received,
 - (iii) the identity of any deposit institution where such *investment product* or other property are *segregated*,
 - (iv) the dates of deposit and withdrawal from such institutions, and
 - (v) the date of return of such *investment products* or other property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.
- (3) When a *Dealer Member* invests the money, proceeds or funds *segregated* for the benefit of its clients, the ledger must contain, at a minimum, the following:
- (i) the date of the transaction,
 - (ii) the identity of the *person* or company through or from whom such *investment products* were purchased,
 - (iii) the amount invested,
 - (iv) a description of the *investment products* invested in,
 - (v) the identity of the deposit institution, other dealer or dealer registered under any *securities laws* where such *investment products* are deposited,
 - (vi) the date of liquidation or other disposition and the money received on such disposition, and
 - (vii) the identity of the *person* or company to or through whom such *investment products* were disposed.

3813. Secondary or subsidiary records

- (1) A *Dealer Member* must maintain the following ledgers (or other *records*):
- (i) *investment products* in transfer,
 - (ii) dividends and interest received, owed or paid to clients,
 - (iii) *investment products* borrowed and loaned,
 - (iv) monies borrowed and monies loaned (together with a *record* of the collateral and any substitutions in such collateral),
 - (v) *investment products* failed to receive and failed to deliver, and
 - (vi) money, *investment products* and other property received to margin, *guarantee* or secure the transactions or contracts of clients, and all funds accruing to clients, which must be *segregated* for the benefit of clients under any *applicable laws*.

3814. Securities, precious metals bullion and similar investment products records

- (1) A *Dealer Member* must maintain a *record* or a ledger, as of the trade or settlement dates (including positions in *safekeeping*) for each long and short *security*, precious metals bullion, or similar *investment product* position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the following:
- (i) the location of all long positions,
 - (ii) the offsetting position to all short positions, and

- (iii) the name or designation of the account in which each position is maintained.

3815. Derivatives record

- (1) A *Dealer Member* must maintain a *record* or ledger, as of the transaction date, for each long and short *derivatives* position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the name or designation of the account in which each position is maintained.
- (3) As part of the *records* required under subsection 3815(1), a *Dealer Member* must maintain a daily *record* that separately identifies the client positions and associated collateral for futures contracts and futures contract options that are subject to the *domestic gross customer margin model*.
- (4) A *Dealer Member* must maintain a client identification record, for accounts subject to the domestic gross customer margin model, that includes the client identification information required by the clearing corporation for porting of client accounts.

3816. Memoranda of orders, transactions and other instructions

- (1) A *Dealer Member* must maintain an adequate *record* of each order, transaction or other instruction given or received for all transactions in *investment products*, whether executed or unexecuted, showing at a minimum the following:
 - (i) the terms and conditions of the order, transaction or instruction and of any modification or cancellation thereof,
 - (ii) the account to which the order, transaction or instruction relates,
 - (iii) the time of entry of the order, transaction or instruction and, where it is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,
 - (iv) where the order, transaction or instruction relates to an omnibus account, the component accounts within the omnibus account on whose behalf it is to be executed, and the allocation among the component accounts intended on execution,
 - (v) to the extent feasible, the time of execution or cancellation,
 - (vi) the price at which the order, transaction or instruction was executed,
 - (vii) the time of report of execution,
 - (viii) whether the transactions are opening or closing transactions (where required by the *marketplace*), and
 - (ix) evidence that the client was informed of fees and charges in accordance with section 3218.
- (2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order, transaction or instruction, if it is placed by an *individual* other than:
 - (i) the account holder, or
 - (ii) an individual authorized in writing to direct orders or instructions for the account.

3817. Options and similar derivatives in which the Dealer Member has an interest

- (1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options or similar *derivatives* in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the *security* or other underlying interest and the number of units involved.

3818. Margin call records

- (1) A *Dealer Member* must maintain a *record* of all margin calls whether such calls are made in writing, by telephone or other means of communication.

3819. Account transfer records

- (1) Pursuant to Part B of Rule 4800, a *Dealer Member* must maintain a *record* of all communications concerning account transfers.

3820. – 3849. Reserved.**PART B – CLIENT REPORTING****3850. General information**

- (1) A *Dealer Member* must include in each statement and report sent to the client in compliance with the requirements of Rule 3800, Part B, the following information:
 - (i) the type and number of the client account covered by the statement or the report, and the name of the *Approved Person* servicing such account, if applicable,
 - (ii) the period covered by the statement or the report, and
 - (iii) the name, address and contact information of the *Dealer Member*, subject to the applicable disclosure requirements of Rule 2400, Part A for *Dealer Member* arrangements.

3851. Client account statements

- (1) A *Dealer Member* must make available daily account information, similar to the information included in a statement as prescribed under subsection 3851(4), to each *retail client* who at the end of the day has in their account:
 - (i) an open futures contract, forward contract, contract for difference or similar *derivative* position, or
 - (ii) an unexpired and unexercised option contract, futures contract option or similar *derivative* position.
- (2) A *Mutual Fund Dealer Member*, that offers margin accounts to clients, or an *Investment Dealer Member* must send a monthly statement to each client who:
 - (i) requests to receive a client account statement on a monthly basis,
 - (ii) during the month had in in their account:
 - (a) a transaction, other than an *automatic plan transaction*,
 - (b) a cash or account position modification, other than modifications due to dividend payments, interest payments or *automatic plan transactions*, or

- (iii) as at the end of the month has in their account:
 - (a) an unexpired and unexercised option contract, futures contract option or similar *derivative* position, or
 - (b) an open futures contract, forward contract, contract for difference or similar *derivative* position.
- (3) A *Dealer Member* must send a quarterly statement to each client who, at the end of the quarter has in their account:
 - (i) a debit or credit balance, or
 - (ii) one or more *investment product* positions (including positions held in *safekeeping* or in *segregation*).
- (4) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:
 - (i) the opening and closing cash balance in the account,
 - (ii) all deposits, credits, withdrawals and debits made to the account, since the previous statement date, specifying for each transaction made by the *Dealer Member* for the client in the account:
 - (a) the date of the transaction,
 - (b) the type of the transaction, including whether the transaction was a purchase, sale or transfer,
 - (c) the name of the *investment product*,
 - (d) the number of *investment products* purchased, sold or transferred,
 - (e) the price per *investment product* if the transaction was a purchase or sale, and
 - (f) the total value of the transaction if it was a purchase or sale.
 - (iii) the name and quantity of each *investment product* position in the account,
 - (iv) for each *investment product* position in the account:
 - (a) where the *market value* is determinable:
 - (I) the *market value*,
 - (II) the total *market value*, and
 - (III) if applicable, the notification required pursuant to either clause (i)(b) or clause (ii)(b) of the definition of *market value* in subsection 1201(2),
 - (b) where the *market value* is not determinable, the notification required pursuant to either clause (i)(c) or clause (ii)(c) of the definition of *market value* in subsection 1201(2),
 - (v) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:
 - (a) for each *investment product* position in the account:
 - (I) where the *cost* is determinable, the *position cost* presented on an average cost per unit, or share basis, or on an aggregate basis, and

- (II) where the *position cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *position cost* in subsection 3802(1),

and

- (b) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:
 - (I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
 - (II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,
- (vi) the total *market value* of all cash and *investment product* positions in the account as at the beginning and the end of the reporting period,
- (vii) where the client is a *retail client* and the statement is a quarterly statement, the total cost of all cash, and *investment product* positions in the account, and
- (viii) the *investment products* in the account that are eligible for coverage by:
 - (a) the IPF, conform the *IPF Coverage Policy* and required disclosures under such policy, or
 - (b) any other investor protection fund approved or recognized by a Canadian *securities regulatory authority*, accompanied with the name of the fund and any required disclosures under the *securities laws*.
- (5) In the case of clients with any *investment products* positions which might be subject to a deferred sales charge if they are sold, a notation identifying each position that might be subject to a deferred sales charge.
- (6) In the case of clients with any open futures contracts, forward contracts, contracts for difference or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:
 - (i) the description and quantity of each open contract, and
 - (ii) the price at which each open contract was entered into.
- (7) In the case of clients with any unexpired and unexercised option contracts, futures contract options or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:
 - (i) the description and quantity of each unexpired and unexercised contract, and
 - (ii) the exercise or striking price of each unexpired and unexercised contract.
- (8) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating transaction in a futures contract or similar *listed derivative*, the monthly statement must contain, at a minimum, the following:

- (i) the dates of the initial transaction and liquidating trade,
 - (ii) the commodity and quantity bought and sold,
 - (iii) the futures *marketplace* upon which the contract was traded,
 - (iv) the delivery month and year,
 - (v) the prices on the initial transaction and on the liquidating trade,
 - (vi) the gross profit or loss on the transactions,
 - (vii) the commission, and
 - (viii) the net profit or loss on the transactions.
- (9) If a *Dealer Member* does not deposit clients' *free credit balances* in trust with an *acceptable institution*, where permitted under these rules, the notation prescribed under section 4383 must be included in the client statement.
- (10) In the case of *derivatives* transactions executed for an *institutional client* under a give-up agreement, the executing *Dealer Member* shall not be required to send a monthly statement, provided
- (i) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement
 - (ii) the clearing *Dealer Member* is responsible, under the give-up agreement, for sending a monthly statement to the client, and
 - (iii) the executing *Dealer Member*:
 - (a) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,
 - (b) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and
 - (c) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

3852. Report on client positions held outside of the Dealer Member

- (1) A *Dealer Member* must send a quarterly report on *outside holdings* to each *retail client* who, at the end of the quarter has one or more *outside holdings*.

A similar proposal to subsection 3852(1), above, has also been made in CIRO Bulletin 24-0288 (in the context of IDPC Rule subsection 3809(1)).

- (2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made:
- (i) the name and quantity of each position,

- (ii) for each position where the *market value* is:
 - (a) determinable:
 - (I) the *market value*,
 - (II) the total *market value*, and
 - (III) if applicable, the notification required pursuant to clause (i)(b) of the definition of *market value* in subsection 1201(2), and
 - (b) not determinable, the notification required pursuant to clause (i)(c) of the definition of *market value* in subsection 1201(2),
 - (iii) for each position where the *position cost* is:
 - (a) determinable, the *position cost* presented on an average cost per unit, or share basis, or on an aggregate basis, and
 - (b) not determinable, the notification required pursuant to clause (iii) of the definition of *position cost* in subsection 3802(1),
 - (iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:
 - (a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
 - (b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,
 - (v) the total *market value* of all positions as at the beginning and the end of the reporting period,
 - (vi) the total *position cost* of all positions.
- (3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each position that might be subject to a deferred sales charge.
 - (4) The report must also indicate:
 - (i) the name of the party that holds or controls each *outside holding* position and a description of the way it is held,
 - (ii) that the client's *outside holdings* are not covered by the *IPF*, and
 - (iii) whether the client's *outside holdings* are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority*, accompanied with the name of the fund and any required disclosures under the *securities laws*.

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CISO Bulletin 24-0288.

3853. Performance report

- (1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:
 - (i) an account with:
 - (a) a debit or credit balance, or
 - (b) one or more *investment products* positions (including positions held in *safekeeping* or in *segregation*), or
 - (ii) holds one or more *outside holdings*
and
 - (iii) there is at least one position in the account or at least one *outside holding*, for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 1201(2),
and
 - (iv) the client's account was opened at least 12 months ago.
- (2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:
 - (i) the total combined *market value* of all cash and *investment products* positions:
 - (a) as at the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, as at July 15, 2015,
 - (b) as at the beginning date of the 12-month reporting period, and
 - (c) as at the end date of the reporting period,
 - (ii) the total combined *market value* of all deposits and transfers in of cash and *investment products* positions:
 - (a) in the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period, and
 - (b) in the 12-month reporting period,
 - (iii) the total combined *market value* of all withdrawals and transfers out of cash and *investment products* positions:
 - (a) in the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period, and
 - (b) in the 12-month reporting period,
 - (iv) the total combined change in *market value* of all cash and *investment products* positions:
 - (a) for the period from the account opening date or, where the account was opened prior to July 15, 2015 and no reliable information is available, from July 15, 2015, to the end date of the reporting period determined using the following formula:
 Total *market value* change from account opening = **A-B-C+D**

Where:

A= *market value* at the end of the reporting period

[Sub-clause 3853(2)(i)(c)]

B= *market value* at account opening

[Sub-clause 3853(2)(i)(a)]

C= deposits and transfers in

[Sub-clause 3853(2)(ii)(a)]

D= withdrawals and transfers out

[Sub-clause 3853(2)(iii)(a)], and

(b) for the 12-month reporting period, determined using the following formula:

Total 12-month *market value* change = **A-B-C+D**

Where:

A= *market value* at the end of the reporting period

[Sub-clause 3853(2)(i)(c)]

B= *market value* at the start of the reporting period

[Sub-clause 3853(2)(i)(b)]

C= deposits and transfers in

[Sub-clause 3853(2)(ii)(b)]

D= withdrawals and transfers out

[Sub-clause 3853(2)(iii)(b)],

(v) the amount of the annualized *total percentage return* calculated net of charges using a money weighted rate of return calculation methodology generally accepted in the *securities* industry for the following periods:

(a) the 12-month period covered by the report,

(b) the three-year period preceding the end date of the report,

(c) the five-year period preceding the end date of the report,

(d) the 10-year period preceding the end date of the report, and

(e) the period from the account opening date, or, where the account was opened prior to July 15, 2015 and no reliable information is available, July 15, 2015 to the end date of the report,

provided that if any portion of a period referred to in sub-clauses 3853(2)(v)(b), 3853(2)(v)(c) and 3853(2)(v)(d) is before July 15, 2015, the *Dealer Member* is not required to report the annualized *total percentage return* for that period, and

(vi) the definition of *total percentage return* as set out in subsection 3802(1) and a notification indicating the following:

(a) the *total percentage return* presented in the performance report was calculated net of fees / charges,

(b) the calculation method used, and

(c) a general explanation in plain language of what the calculation method takes into account.

- (3) The combined information required to be provided under subsection 3853(2) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining:
 - (i) the content of the report and how a client can use the information to assess the performance of the client's investments, and
 - (ii) the changing value of the client's investments as reflected in the information in the report.
- (4) The *Dealer Member* must send a performance report containing the combined information required to be provided under subsection 3853(2) to a client every 12 months, except that:
 - (i) the first performance report to the client may be sent within 24 months after the *Dealer Member* carries out a transaction or transfer for that client, and
 - (ii) where a performance report that covers the 12-month period ending on December 31, 2016 was sent to the client, all subsequent performance reports for the 12-month periods ending on December 31, 2017 and each calendar year thereafter may include:
 - (a) the information required by sub-clauses 3853(2)(i)(a), 3853(2)(ii)(a), 3853(2)(iii)(a) and 3853(2)(iv)(a) [Prior period comparative account activity information] as at or for the period commencing January 1, 2016, as applicable, and
 - (b) the information required by sub-clauses 3853(2)(v)(b) through 3853(2)(v)(e) [Prior period comparative percentage return information] provided that if any portion of a period referred to in sub-clauses 3853(2)(v)(b), 3853(2)(v)(c), and 3853(2)(v)(d), is before January 1, 2016, the *Dealer Member* is not required to report the annualized *total percentage return* for that period.
- (5) The information required under this section 3853 must be provided in a separate report for each of the client's accounts.
- (6) The information required under this section 3853 in respect of *outside holdings* must be included in the report for each of the client's accounts through which these positions were transacted
- (7) Subsections 3853(5) and 3853(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* provided:
 - (i) the client has consented in writing to receiving a consolidated report, and
 - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3853(7), must:
 - (i) be prepared for the same 12-month period, and
 - (ii) include aggregated information for the same accounts and *outside holdings*,

as the annual fee/charge reports that are sent to the same client.

- (9) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual performance report under this section 3853, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account in addition to the requirements set out under section 3851:
 - (i) the total profit or loss realized on positions exercised, expired or closed during the period covered,
 - (ii) the unrealized profit or loss for each opened position at the end of the period covered,
 - (iii) the profit or loss realized for each positions exercised, expired or closed during the period covered, and
 - (iv) a disclosure explaining to the client that for the period covered, the statement does not provide information on the changes in *market value* that occurred during the period covered, but provides the client with:
 - (a) profit or loss realized on positions exercised, expired or closed, and
 - (b) unrealized profit or loss for opened position at the end of the period covered.
- (10) For purposes of subsection 3853(9), all deposits, credits, withdrawals and debits made in the account can be disclosed as a single net deposit or net withdrawal in the statement.
- (11) If a *Dealer Member* sends a performance report to the client for a period shorter than 12-months, the *Dealer Member* must not calculate the disclosed information on an annualized basis.

3854. Fee/charge report

- (1) A *Dealer Member* must send an annual fee/charge report to each *retail client* who at the end of the 12-month period covered by the report:
 - (i) has an account with the *Dealer Member*, or
 - (ii) holds one or more *outside holdings*
 and
 - (iii) such client paid either directly or indirectly, to the *Dealer Member* or any of its *registered individuals*, any fee, charge or other payment reportable under subsection 3854(2) during the period covered by the report.

In CIRO Bulletin 24-0288, we propose repealing and replacing the IDPC Rule clause 3811(1)(iii) with the following, which, once approved, we will incorporate with the shown adjustments into DC Rule 3800 to replace clause 3854(1)(iii):

- (iii) such client paid either directly or indirectly any fee, charge or other payment, reportable under subsection 3854(2) during the period covered by the report.

- (2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

- (i) a discussion of the *operating charges* which might be applicable to the client's account,
- (ii) the total amount of each type of *operating charge* related to the client's account paid by the client during the reporting period,
- (iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the reporting period,
- (iv) the total amount of each type of *transaction charge* related to transactions in *investment products* paid by the client during the reporting period,
- (v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the reporting period,
- (vi) the aggregate total amount of all charges reported under clauses 3854(2)(iii) and 3854(2)(v),
- (vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:
 - (a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,
 - (b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of *debt securities*, the following notification or a notification that is substantially similar:

“For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged.”,
- (viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by an issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and
- (ix) if the *Dealer Member* received *trailing commissions* related to *securities* owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

“We received \$[amount] in trailing commissions in respect of *securities* you owned during the period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the

management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

In CRO Bulletin 24-0288 we propose adding the following new provisions to CRO Rules, which, once approved, we will incorporate with the shown adjustment into DC Rule section 3854:

- (x) if the client owned investment fund *securities* during the period covered by the report, the following information about those *securities* for such period:
 - (a) the *total amount of fund expenses* charged to the investment fund by its investment fund manager or any other party, after making the necessary adjustments to add performance fees and deduct fee waivers, rebates or absorptions, but excluding any charges reported as *transaction charges* under clause 3854(2)(iv),
 - (b) the total amount of *direct investment fund charges* charged to the client by the investment fund, investment fund manager or any other party, excluding any charges reported as *transaction charges* under clause 3854(2)(iv),
 - (c) the aggregate total amount of all expenses and charges reported under subclauses 3854(2)(x)(a) and 3854(2)(x)(b),
 - (d) the aggregate total amount of all *Dealer Member* charges and investment fund expenses and charges reported under clause 3854(2)(vi) and subclause 3854(2)(x)(c),
 - (e) the *fund expense ratio* of each class or series of *securities* of each investment fund, including any performance fees and deducting any fee waivers, rebates or absorptions,
 - (f) the following disclosures:
 - (I) if information reported under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) is based on an approximation or any other assumption, a notification that this is the case,
 - (II) in relation to any *direct investment fund charges* charged to the client, other than deferred sales charges, a short explanation of the type of fees that were charged,
 - (III) in relation to the *total amount of fund expenses* reported, the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s

management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund.”,

- (IV) in relation to *the fund expense ratios* required to be reported under subclause 3854(2)(x)(e), the following notification or a notification that is substantially similar:

“Please refer to the prospectus or fund facts document of each investment fund for more detailed information about fund expenses and fund performance.

Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.”,

- (V) in relation to any deferred sales charges paid by the client, the following notification or a notification that is substantially similar:

“You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.”,

- (VI) in relation to an investment fund or *securities* of an investment fund where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the information reported for those *securities* under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) is based on information disclosed under the laws of a foreign jurisdiction, the following notification or a notification that is substantially similar:

“This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.”,

- (VII) in relation to any structured product, labour sponsored investment fund or investment fund the *securities* of which are distributed solely under an exemption from the prospectus requirement in compliance with

securities laws, the following notification or a notification that is substantially similar:

“Please note that other products you may own or may have owned during the reporting period, such as exempt market investment funds, labour sponsored investment funds or structured products, may have embedded fees that are not reported here. You can contact us for more information.”,

- (xi) if the *Dealer Member* knows or has reason to believe that the client paid, to third parties, custodial fees, intermediary fees or interest charges related to *investment products* owned by the client during the period covered by the report and those fees or charges are not required to be reported to the client by the *Dealer Member* under this section, the following notification or a notification that is substantially similar

“The costs in this report may not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that may be deducted from your account. You can contact those service providers for more information.”,

- (xii) the following notification or a notification that is substantially similar:

“What can you do with this information? Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return. If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.”.

- (3) A *Dealer Member* may exclude the information required under subclauses 3854(2)(x)(a) and 3854(2)(x)(e) and any approximations of such information for a newly established investment fund in which case the following notification or a notification that is substantially similar must be included in the report:

“The total amount of fund expenses reported may not include cost information for newly established investment funds.”,

- (4) A *Dealer Member* is not required to report the information under subclauses 3854(2)(x)(a), 3854(2)(x)(b), 3854(2)(x)(e), and any approximations of such information, or the disclosures under paragraphs 3854(2)(x)(f)(I) to 3854(2)(x)(f)(V) and clause 3854(2)(xi) with regards to:
 - (i) a labour sponsored investment fund, or
 - (ii) an investment fund whose *securities* are distributed solely under an exemption from the prospectus requirement in compliance with *securities laws*.
- (5) A *Dealer Member* is permitted to report a reasonable approximation of the information required under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e), when relying on reasonable approximations to determine such information pursuant to subsection 3854(6).

- (6) For the purposes of reporting the information under subclauses 3854(2)(x)(a), 3854(2)(x)(b) and 3854(2)(x)(e) and the disclosures under paragraphs 3854(2)(x)(f)(I), 3854(2)(x)(f)(II), 3854(2)(x)(f)(V) and 3854(2)(x)(f)(VI), the *Dealer Member* must:
- (i) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the *Dealer Member* reasonably believes the information provided is incomplete or misleading, and
 - (ii) where no reliable information can be obtained pursuant to clause 3854(6)(i), make reasonable efforts to obtain or determine by other means the required information, or a reasonable approximation of such information, and
 - (iii) where it reasonably believes it cannot obtain or determine under clause 3854(6)(ii) information that is not misleading, exclude such information and disclose in the relevant statement or report that the information is excluded from calculations or not reported.
- (7) The *Dealer Member* must send a fee/charge report containing the combined information required to be provided under subsection 3854(2) to a client every 12 months, except that the first report sent after a *Dealer Member* opens an account for a client may cover a shorter period.
- (8) The information required under this section 3854, must be provided in a separate report for each of the client's accounts.
- (9) The information required under this section 3854 in respect of *outside holdings* must be included in the report for each of the client's accounts through which these positions were transacted.
- (10) Subsections 3854(8) and 3854(9) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* provided:
- (i) the client has consented in writing to receiving a consolidated report, and
 - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (11) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3854(10), must:
- (i) be prepared for the same 12-month period, and
 - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual performance reports that are sent to the same client.
- (12) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual fee/charge report under this section 3854, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account for the period covered:
- (i) itemized transaction charge and operating charge information in accordance with this section 3854, and

- (ii) if applicable, itemized information on compensation received by the *Dealer Member* in connection with a transaction.
- (13) For purposes of clause 3854(12)(ii), the following information will be acceptable where the compensation received by the *Dealer Member* relates to a bulk distribution arrangement:
 - (i) a calculated product distribution compensation amount, or
 - (ii) where the distribution compensation amount cannot be unbundled from the manufacturer compensation amount,
 - (a) the entire compensation amount, and
 - (b) a note explaining that the amount disclosed is the entire product compensation amount.
- (14) Where for a certain *investment product*, the *Dealer Member* reasonably believes that it cannot obtain reliable fee/charge information that is not misleading, the *Dealer Member* must exclude such information and provide meaningful disclosure in the report of the information excluded.

3855. Transaction confirmations

- (1) A *Dealer Member* must promptly send the client a written confirmation of transactions in *investment products* and other property for the client's account.
- (2) The written confirmation must contain
 - (i) at a minimum the following information:
 - (a) the name, address and contact of the *Dealer Member*,
 - (b) the type and number of the account through which the transaction was effected,
 - (c) whether or not the *person* or company that executed the transaction acted as principal or agent,
 - (d) the name of the *Registered Representative* and *Investment Representative*, if any, involved in the transaction,
 - (e) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the transaction,
 - (f) the settlement date of the transaction,
 - (g) the date of the transaction, and if the transaction took place on a marketplace, the marketplace or marketplaces where the transaction took place, or marketplace disclosure language acceptable to the *Corporation*,
 - (h) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction,
 - (i) the applicable *IPF* disclosure, in accordance with the *IPF Disclosure Policy*,
 and:
 - (ii) in the case of trades in *securities*, precious metals bullion and similar *investment products*:
 - (a) the quantity and description,

- (b) the price, and
- (c) must maintain and make available to the client or the *Corporation*, upon request, the name of the *person* or company from or to or through whom the product was bought or sold, if acting as an agent in a trade upon an equity *marketplace*,

and

- (iii) in the case of transactions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*:

- (a) the contract underlying interest,
- (b) the contract quantity bought or sold,
- (c) if applicable, the quantity of the underlying interest bought or sold,
- (d) the contract delivery date, and
- (e) the price at which the contract was entered into,

and

- (iv) in the case of transactions in options contracts, futures contract options and similar *derivatives*:

- (a) the contract underlying interest,
- (b) the contract quantity bought or sold,
- (c) the contract type,
- (d) the contract premium,
- (e) the contract exercise or striking price,
- (f) the contract declaration date,
- (g) if applicable:
 - (I) the futures contract that is the subject of the futures contract option,
 - (II) the date of the futures contract that is the subject of the futures contract option,

and

- (v) in the case of trades in mortgage-backed *securities*, and subject to the proviso below:

- (a) the original principal amount of the trade,
- (b) the description of the *security* (including interest rate and maturity date),
- (c) the remaining principal amount (RPA) factor,
- (d) the purchase/sale price per \$100 of original principal amount,
- (e) the accrued interest,
- (f) the total settlement amount, and
- (g) the settlement date,

provided that in the case of trades entered into from the first *business day* of the month to the fourth *business day* of the month, inclusive, a preliminary confirmation

shall be issued showing the trade date and the information in sub-clauses 3855(2)(v)(a), 3855(2)(v)(b), 3855(2)(v)(d) and 3855(2)(v)(g) and indicating that the information in sub-clauses 3855(2)(v)(c), 3855(2)(v)(e) and 3855(2)(v)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the *security* is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required in subsection 3855(2),

and

- (vi) in the case of transactions in *debt securities or similar investment products*:
 - (a) in the case of a purchase, where the product is a stripped coupon or a residual debt instrument:
 - (I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and
 - (II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other products which are commonly regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed,
 - (b) in the case of a purchase, where the product is neither a stripped coupon nor a residual debt instrument:
 - (I) the yield to maturity calculated in a manner consistent with market conventions for the *security* traded,
 - (II) where the product is subject to call prior to maturity through any means, the notation of “callable” must be included, and
 - (III) where the product has a variable coupon rate, the notation “The coupon rate may vary.” must be included,
 - (c) where the product trade is not a primary market transaction and the transaction confirmation is being sent to a *retail client*, either of the following:
 - (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction, or
 - (II) the total amount of any commission charged to the client by the *Dealer Member* and, if the *Dealer Member* applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

“Dealer firm remuneration has been added to the price of this product (in the case of a purchase) or deducted from the price of this product (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”,

and

- (vii) in the case of transactions in

(a) *over-the-counter investment products* other than *debt securities* or a *security* that is undergoing a primary market transaction, and *over-the-counter derivatives* other than contracts with non-standardized terms that are customized to the needs of a particular client and for which there is no secondary market, and

(b) the confirmation is being sent to a *retail client*,

either of the following:

- (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,
- (II) one of the following notifications or a notification that is substantially similar:

“Dealer firm remuneration has been added to the price of this product (in the case of a purchase) or deducted from the price of this product (in the case of a sale).”

“Dealer firm remuneration has been included as an adjustment to the price of this derivatives transaction.”,

and

(viii) in the case of transactions involving:

- (a) *investment products* of the *Dealer Member*, or
- (b) *investment products* of a *related issuer* of the *Dealer Member*, or
- (c) *investment products* of a *connected issuer* of the *Dealer Member*, or
- (d) *investment products* referenced in sub-clauses 3855(2)(viii)(a) through 3855(2)(viii)(c) that are in the course of a distribution to the public, or
- (e) *derivatives* whose underlying interest is referenced in sub-clauses 3855(2)(viii)(a) through 3855(2)(viii)(d),

the transaction confirmation must indicate that the transactions involve products of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member* or a *derivative* whose underlying interest is a product of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

(3) Notwithstanding the provisions of this section 3855, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of:

- (i) a trade in a *managed account*, provided:
 - (a) prior to the trade, the client has consented in writing to waive the transaction confirmation requirement,
 - (b) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,
 - (c) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an

exemption from any such *applicable laws* by the responsible *securities regulatory authority*, and

(d) where:

(I) a *person* other than the *Dealer Member* manages the account:

- (A) a transaction confirmation has been sent to the manager of the account, and
- (B) the *Dealer Member* complies with section 3851, or

(II) the *Dealer Member* manages the account:

- (A) the account is not charged any commissions or fees based on the volume or value of transactions in the account,
- (B) the *Dealer Member* sends to the client a monthly statement that is in compliance with section 3851 and contains all of the information required to be contained in a confirmation under this section 3855 except:

- (i) the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the *Corporation*,
- (ii) the fee or other charge in connection with the trade, separately from what is being disclosed in the monthly statement,
- (iii) the name of the *Registered Representative* or *Investment Representative*, if any, in the transaction,
- (iv) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, and
- (v) as applicable, the name of the *person* or company from or to or through whom the *security* was bought or sold, if acting as an agent in a trade on an equity marketplace,

(C) the *Dealer Member* maintains the information not required to be in the monthly statement pursuant to sub-paragraph 3855(3)(i)(d)(II)(B) and discloses to the client on the monthly statement that such information will be provided to the client on request.

(ii) a trade in a delivery against payment or receipt against payment trade account, provided:

- (a) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *Corporation requirements* or *securities laws*,
- (b) the *Dealer Member* maintains an electronic audit trail of the trade under *Corporation requirements* or *securities laws*,
- (c) prior to the trade, the client has agreed in writing to waive receipt of transaction confirmations from the *Dealer Member*,
- (d) the client is either:

- (I) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or
- (II) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,
- (e) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3855,
- (f) for trades subject to broker-to-broker trade matching, the *Dealer Member* has a quarterly compliant trade percentage calculated using the methodology in section 4756 of greater than or equal to 85% for at least two of the last four quarters, and
- (g) for trades subject to institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their transaction confirmation waiver, referred to in sub-clause 3855(3)(ii) by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

- (iii) a swap transaction, provided:
 - (a) the *Dealer Member* enters into a standard industry agreement with the client that is acceptable to the *Corporation*, and
 - (b) the agreement sets out the terms for a client to receive a confirmation of a swap transaction and the key terms of the confirmation.
- (iv) a *derivatives* transaction where the *Dealer Member* is the executing broker and the transaction is executed for an *institutional client* under a give-up agreement, provided
 - (a) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement,
 - (b) the clearing *Dealer Member* is responsible, under the give-up agreement, for issuing the transaction confirmation to the client, and
 - (c) the executing *Dealer Member*:
 - (I) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,
 - (II) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and
 - (III) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transaction details with its own record.

- (v) a transaction in a *security* of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under subsection 3855(2).
- (vi) automatic plan transactions that occur on a monthly or more frequent basis, provided that:
 - (a) the transaction is in a *security* of a mutual fund, scholarship plan, educational plan or educational trust, and
 - (b) the *Dealer Member* provides written confirmation for the initial transaction in compliance with this section 3855.
- (4) A *Dealer Member* is not required to provide in the transaction confirmation the information required pursuant to:
 - (i) subclause 3855(2)(i)(h), where the confirmation is sent to an *institutional client* for transactions in *over-the-counter investment products*, other than *debt securities*, with the exception that any commission, if charged in respect of the transaction, must be included in the confirmation, or
 - (ii) clause 3855(2)(viii), where the confirmation is for transactions involving *investment products* of an issuer whose name is sufficiently similar to the name of the *Dealer Member* to indicate that they are related or affiliated.

3856. Option of earlier date

- (1) *Dealer Members* have the option of providing clients with the following *position cost* information:
 - (i) *position cost* information included in client account statements [Definition of *position cost* in subsection 3802(1) and clauses 3851(4)(v) and 3851(4)(vii)],
 - (ii) *position cost* information included in the report on *outside holdings* [Definition of *position cost* in subsection 3802(1) and clauses 3852(2)(iii) and 3852(2)(vi)],
 that is prepared as at a date earlier than December 31, 2015.
- (2) *Dealer Members* have the option of providing clients with the following performance information:
 - (i) activity information included in the annual performance report [clauses 3853(2)(i) through 3853(2)(iv)], and
 - (ii) percentage return information included in the annual performance report [clause 3853(2)(v)],
 that is prepared for a period that begins on a date earlier than July 15, 2015.
- (3) Where the option in subsection 3856(1) is pursued, all of the *position cost* information referenced in clauses 3856(1)(i) and 3856(1)(ii) must be prepared for all similar clients as at the same date.
- (4) Where the option in subsection 3856(2) is pursued, all of the activity and percentage return information referenced in clauses 3856(2)(i) and 3856(2)(ii) must be prepared for all similar clients as at the same date.

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

3857. Delivery of documents to clients

- (1) All confirmations, statements, reports and other documents that are required to be sent to clients under Rule 3800, Part B, must be:
 - (i) sent promptly to clients,
 - (ii) provided to clients in electronic format in accordance with *applicable laws* or, when requested, in paper format.
- (2) The report on *outside holdings*, prepared pursuant to section 3852, must be sent to the client either:
 - (i) as a separate document [titled “Report on client positions held outside of the Dealer Member”] within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or
 - (ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date, provided that is done in a manner that would not mislead a reasonable client with regards to:
 - (a) the client’s assets or positions controlled by the *Dealer Member* and the client’s *outside holdings*,
 - (b) the party that holds or controls each client *outside holding* position and the way it is held, and
 - (c) the client assets that are eligible for coverage under the IPF, or another investor protection fund approved or recognized by a Canadian *securities regulatory authority*, and the ones that are not.
- (3) The *Dealer Member* may provide clients with consolidated statements of client accounts with *outside holding* reports in addition to, but not in place of, the account statements and outside holdings reports sent to clients separately or combined, in compliance with subsection 3857(2).
- (4) The performance report and the fee/charge report, prepared pursuant to sections 3853 and 3854 for the same 12-month period, must be sent to the client together and either:
 - (i) within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or
 - (ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date.

In CIRO Bulletin 24-0288 we propose adding the following new sections to CIRO Rules, which, once approved, we will incorporate with the shown adjustment into DC Rule sections 3858 and 3859, respectively:

3858. Client reporting responsibility

- (1) A *Dealer Member* who acts as a *carrying broker*, or only provides trade execution, clearing, settlement or custody services or a combination of these services, to another *Dealer Member*,

portfolio manager, exempt market dealer or their respective clients, with regards to a client account or *outside holding* positions, is exempt from the responsibility to send:

- (i) a performance report to the client, pursuant to section 3853, and
- (ii) a fee/charge report to the client, pursuant to section 3854, except for its own service fees and charges to the client,

regarding such a client account or *outside holding* positions, unless it has undertaken to send such reports on behalf of the other *Dealer Member, portfolio manager* or *exempt market dealer* pursuant to an outsourcing or service arrangement.

3859. Corporation exemptions

- (1) The *Corporation* may exempt a *Dealer Member* from the applicable reporting requirements under sections 3852, 3853 and 3854 with respect to clients *outside holdings*, when the costs of requiring the *Dealer Member* to comply with such requirements significantly outweigh the benefits to the *Dealer Member's* clients from such reporting.
- (2) The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member's* clients, the public or the *Dealer Member*.
- (3) In granting an exemption under section 3859, the *Corporation* may impose any terms and conditions it considers necessary.

3860. Exempt Market Dealers and Scholarship Plan Dealers

- (1) Where a *Mutual Fund Dealer Member* is also registered as:
 - (i) an exempt market dealer, and a client has purchased a *security* from the *Mutual Fund Dealer Member* that is sold pursuant to an exemption under *securities laws*; or
 - (ii) as a scholarship plan dealer, and a client has invested in a scholarship plan through the *Mutual Fund Dealer Member*,
 the *Mutual Fund Dealer Member* must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under *securities laws*.

3861. – 3899. Reserved.

RULE 4100 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

4101. Introduction

- (1) Rule 4100 sets out the following *Dealer Member* general financial requirements:

Part A - Minimum capital level and related requirements

[sections 4110 through 4120]

Part B - Early warning tests and related requirements

[sections 4130 through 4138]

Part C - Regulatory financial report filing requirements

[sections 4150 through 4153]

Part D - Appointment of auditors and audit requirements

[sections 4170 through 4192]

4102. - 4109. Reserved.

PART A - MINIMUM CAPITAL LEVEL AND RELATED REQUIREMENTS

4110. Introduction

- (1) Part A of Rule 4100 sets out general *Corporation requirements* for:
- (i) minimum capital levels,
 - (ii) maintaining at all times a positive *risk adjusted capital* amount,
 - (iii) averting, reporting and remedying any negative *risk adjusted capital* situations,
 - (iv) calculating its current *risk adjusted capital* amount,
 - (v) maintaining and utilizing a capital adequacy reporting system, and
 - (vi) consolidating its financial position reporting with *related companies*.

4111. Minimum capital levels

- (1) A *Dealer Member* must maintain at all times a minimum capital amount for the purposes of calculating *risk adjusted capital*.
- (2) A *Mutual Fund Dealer Member's* minimum capital amount is based on designated levels as follows:

Dealer Level	Description
(i) Level 1 Dealer	A <i>Mutual Fund Dealer Member</i> that is: (a) an <i>introducing broker</i> which complies with the requirements in sections 2407 and 2430, (b) not a Level 2, 3 or 4 Dealer, and (c) not otherwise registered in any other category of registration under <i>securities laws</i>.
(ii) Level 2 Dealer	A <i>Mutual Fund Dealer Member</i> that does not hold or control client cash, <i>securities</i> or other property.

Dealer Level	Description
(iii) Level 3 Dealer	A <i>Mutual Fund Dealer Member</i> that does not hold or control client <i>securities</i> or other property except client cash in a trust account.
(iv) Level 4 Dealer	A <i>Mutual Fund Dealer Member</i> that: (a) holds or controls client cash, <i>securities</i> or other property, and (b) is not a Level 3 Dealer.

(3) The minimum capital amount for:

(i) a *Mutual Fund Dealer Member* is:

- (a) \$25,000 for a firm designated as a Level 1 Dealer,
- (b) \$50,000 for a firm designated as a Level 2 Dealer that is not registered as an investment fund manager under *securities laws*,
- (c) \$75,000 for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under *securities laws*,
- (d) \$100,000 for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under *securities laws*,
- (e) \$200,000 for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients,
- (f) \$250,000 for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients,

and

(ii) an *Investment Dealer Member* is:

- (a) \$75,000 for a firm that is a Type 1 *introducing broker*, and
- (b) \$250,000 for a firm that is not a Type 1 *introducing broker*.

4112. Maintaining a positive risk adjusted capital amount

- (1) A *Dealer Member* must at all times maintain a *risk adjusted capital* amount of greater than zero.

4113. Negative risk adjusted capital and other early warning test failure situations

- (1) The *Chief Financial Officer* and *Ultimate Designated Person* must take prompt action to:
- (i) avert or remedy any projected or actual negative *risk adjusted capital* situations,
 - (ii) report to the *Corporation* any actual negative *risk adjusted capital* situations,
 - (iii) report to the *Corporation* any early warning test failure situations that could require the *Dealer Member* to be designated in early warning level 1 or level 2, and
 - (iv) report to the *Corporation* any circumstances from which it should be apparent that there would be early warning test failures that could require the *Dealer Member* to be designated in early warning level 1 or level 2 if the *Dealer Member* had complied with the requirements of Rule 4100 and performed the early warning test calculations.

4114. Calculating current risk adjusted capital amount - general requirements

- (1) A *Dealer Member* must calculate its *risk adjusted capital* amount according to the requirements specified in Form 1 and any other *Corporation requirements*.
- (2) A *Dealer Member* must know its current *risk adjusted capital* amount by computing it as often as necessary to ensure it has adequate regulatory capital at all times. The *Dealer Member* must also comply with weekly, monthly and annual calculation and documentation requirements in Rule 4100.

4115. Calculating current capital position

- (1) The *Chief Financial Officer* or designate must document that he or she has:
 - (i) received management reports produced by the *Dealer Member's* accounting system showing information relevant to estimating the *Dealer Member's risk adjusted capital* amount,
 - (ii) obtained other information about items that, while perhaps not yet recorded in the accounting system, are likely to significantly affect the *Dealer Member's risk adjusted capital* amount (for instance, bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements),
 - (iii) calculated the *Dealer Member's risk adjusted capital* amount, compared it to planned and prior period capital levels, and reported adverse trends or variances to the *Ultimate Designated Person*,
 - (iv) performed the early warning liquidity and capital test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has or may have violated any of these tests, and
 - (v) performed the early warning profitability test calculations for the *Dealer Member* where the *Dealer Member* has experienced a significant month-to-date loss, and determined whether or not the *Dealer Member* has or may have violated this test.
- (2) The *Chief Financial Officer* or designate must document and calculate the current capital position under section 4115(1):
 - (i) at least weekly, for a Level 4 Dealer or an *Investment Dealer Member*, or
 - (ii) at least twice per month, for a Level 1, 2 or 3 Dealer,
 but more frequently if required, including but not limited to instances where the *Dealer Member* is close to violating an early warning test or volatile market conditions exist.

4116. Calculating current capital position - monthly documentation and reconciliation

- (1) A *Dealer Member* must generate monthly trial balances and prepare regulatory capital computations based on its current ledger accounts to:
 - (i) check on status and accuracy of those ledger accounts, and
 - (ii) keep itself informed of its *risk adjusted capital* amount as required under Part A of Rule 4100.
- (2) The *Chief Financial Officer* or designate must document that he or she has at least monthly, performed the early warning liquidity, capital and profitability test calculations

for the *Dealer Member* and determined whether or not the *Dealer Member* has violated this test.

- (3) The preliminary month-end estimate of the *Dealer Member's risk adjusted capital* amount must be reconciled to the final *risk adjusted capital* amount reported as part of the *Dealer Member's monthly financial report*. Material discrepancies must be investigated and steps taken to avoid re-occurrence.

4117. Dealer Member capital adequacy reporting system - adequate policies and procedures

- (1) A *Dealer Member* must:
 - (i) have policies and procedures that specifically address timely, complete and accurate records,
 - (ii) maintain a capital adequacy reporting system:
 - (a) based on timely, complete and accurate accounting records,
 - (b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (for instance, capital markets, principal trading, borrowing/lending),
 - (c) that includes senior management approved capital usage limits for each of these functional areas that provides for reasonable assurance its combined operations maintain adequate intra-day and end of day *risk adjusted capital* amounts, and
 - (d) that identifies and informs senior management of breaches of approved capital usage limits. The *Chief Financial Officer* is responsible for identifying any breaches and reporting them to the *Dealer Member's* appropriate *Executives*,
 - (iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains at all times a positive *risk adjusted capital* amount as prescribed by *Corporation requirements*,
 - (iv) identify and implement changes, on an ongoing basis, to its capital adequacy reporting system required to reflect developments in its business or in regulatory requirements, and
 - (v) perform and document, at least annually, a supervisory review of its capital adequacy reporting system.
- (2) A *Dealer Member's Chief Financial Officer* must continuously monitor the *Dealer Member's risk adjusted capital* amount to ensure that the *Dealer Member* maintains at all times a positive *risk adjusted capital* amount as prescribed by *Corporation requirements*.

4118. Consolidation of financial position with related companies

- (1) In calculating its *risk adjusted capital*, a *Dealer Member* may consolidate its financial position with the financial position of any of its *related companies* if:
 - (i) the *Corporation* has provided the *Dealer Member* with prior written approval of the consolidation,
 - (ii) the *Dealer Member* has guaranteed the obligations of the *related company* and the *related company* has guaranteed the obligations of the *Dealer Member*,
 - (iii) the *guarantees* are:

- (a) in a form acceptable to the *Corporation*, and
 - (b) unlimited in amount,
- and
- (iv) the consolidation meets the requirements in subsection 4118(2).
- (2) A *Dealer Member* consolidating its financial position with a *related company* under subsection 4118(1) must comply with the following requirements or with other requirements acceptable to the *Corporation*:
 - (i) eliminate inter-company accounts between the *Dealer Member* and the *related company*,
 - (ii) eliminate any minority interests in the *related company* from the *Dealer Member's* capital calculation, and
 - (iii) combine *Dealer Member* and *related company* financial information prepared as at the same date.

4119. Options for calculating risk adjusted capital available to well-capitalized Dealer Members

- (1) A *Dealer Member*, whose *risk adjusted capital*, *early warning excess* and *early warning reserve* amounts are substantially in excess of that required under *Corporation requirements*, may apply requirements more stringent than the *Corporation* capital computation requirements and thereby omit certain documentation in support of the computation. For example, when calculating *risk adjusted capital*:
 - (i) inventories can be grouped into broader margin categories and maximum margin rates applied,
 - (ii) margin requirement reductions for offset positions recognized elsewhere in *Corporation requirements* can be ignored, and
 - (iii) assets partly allowable or of questionable value can be excluded entirely.

4120. Dealer Member guarantees

- (1) Any *guarantee* provided by a *Dealer Member* must be of a fixed or determinable amount, unless the *guarantee* is given to a *related company* in accordance with section 2206.

4121. - 4129. Reserved.

PART B - EARLY WARNING TESTS AND RELATED REQUIREMENTS

4130. Introduction

- (1) Part B of Rule 4100 describes the early warning system that alerts the *Corporation* to a *Dealer Member's* financial or operational problems. It also sets out the process the *Corporation* follows and the requirements that *Dealer Members* must comply with to resolve *early warning test violation* situations before they worsen.
- (2) A *Dealer Member* has a responsibility to:
 - (i) monitor for *early warning test violations*,
 - (ii) avoid the potential for *early warning test violations*, and
 - (iii) report *early warning test violations* to the *Corporation* when they occur.

4131. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4100:

“average monthly loss” (<i>perte mensuelle moyenne</i>)	The sum of the <i>Dealer Member's</i> monthly <i>profit</i> and <i>loss</i> amounts for a particular period divided by the number of months in the period and the result is a loss.
“early warning test violation” (<i>transgression d'un contrôle lié au signal précurseur</i>)	A violation that has occurred because: (i) a Level 1, 2 or 3 Dealer has failed an early warning test as set out in Schedule 16 of Form 1, or (ii) a Level 4 Dealer or an <i>Investment Dealer Member</i> has failed an early warning test as set out in Schedules 17 and 17A of Form 1.
“loss” (<i>perte</i>)	The <i>Dealer Member's</i> loss, if any, for early warning test purposes as set out in Statement D of Form 1.
“profit” (<i>profit</i>)	The <i>Dealer Member's</i> profit, if any, for early warning test purposes as set out in Statement D of Form 1.

4132. Early warning designation, levels and tests

- (1) A Level 1, 2 or 3 Dealer is designated as being in early warning level 1 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1
Liquidity test	<i>Mutual Fund Dealer Member's</i> early warning excess is less than zero.
Capital test	<i>Mutual Fund Dealer Member's</i> risk adjusted capital is less than zero.
Profitability test #1	<i>Mutual Fund Dealer Member's</i> current month risk adjusted capital is less than the loss for the most recent quarter.
Profitability test #2	<i>Mutual Fund Dealer Member's</i> current month risk adjusted capital is less than the loss for the most recent 6 months.
Frequency	<i>Mutual Fund Dealer Member</i> has been designated as being in any early warning, excluding discretionary early warnings, two or more times in the preceding twelve months.

- (2) A Level 4 Dealer or an *Investment Dealer Member* is designated as being in early warning level 1 or level 2 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1	Early warning level 2
Liquidity test	<i>Dealer Member's</i> early warning reserve is less than zero.	<i>Dealer Member's</i> early warning excess is less than zero.
Capital test	<i>Dealer Member's</i> risk adjusted capital is less than five per cent of its total margin required.	<i>Dealer Member's</i> risk adjusted capital is less than two per cent of its total margin required.

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

4133. Early warning related requirements

- (1) When a *Dealer Member* has been designated as being in early warning level 1 or level 2, because of an *early warning test violation* under section 4132, the following actions must be taken:

	Early warning level 1	Early warning level 2
Notifying the Corporation in writing	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must immediately deliver a letter to the <i>Corporation</i> detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the <i>Dealer Member's</i> proposed plan to rectify the problems identified, and (iv) the <i>Dealer Member's</i> acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the <i>Investor Protection Fund</i>.	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must immediately deliver a letter to the <i>Corporation</i> detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the <i>Dealer Member's</i> proposed plan to rectify the problems identified, and (iv) the <i>Dealer Member's</i> acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the <i>Investor Protection Fund</i>.
Meeting with the Corporation	Not applicable	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must meet with the <i>Corporation</i> to present the <i>Dealer Member's</i> plan for rectifying the identified problems.
Taking required actions	The <i>Dealer Member</i> must: (i) file a <i>monthly financial report</i> required under section 4151 within 15 <i>business days</i> after the end of each month or on any earlier day that the <i>Corporation</i> considers practicable, (ii) provide any other information that the <i>Corporation</i> requests, and (iii) comply with the business restrictions in section 4135.	The <i>Dealer Member</i> must: (i) file a weekly capital report with the same information as a <i>monthly financial report</i> within five <i>business days</i> after the end of each week or on any earlier day that the <i>Corporation</i> considers practicable, (ii) file a weekly report, in a <i>Corporation</i> prescribed form, of its aged <i>segregation</i> deficiencies and an outline of its plan to correct them according to sections 4321 through 4326,

	Early warning level 1	Early warning level 2
		(iii) file a business plan for such period and covering such matters as the <i>Corporation</i> specifies, (iv) file its next <i>monthly financial report</i> required under section 4151 within 10 <i>business days</i> after the end of each month or any earlier day that the <i>Corporation</i> considers practicable, (v) provide any other information that the <i>Corporation</i> requests, and (vi) comply with the business restrictions in section 4135.
Responding to the Corporation's letter	The <i>Corporation</i> will send a letter to a <i>Dealer Member</i> in early warning level 1 confirming that the <i>Dealer Member</i> has been designated as being in early warning level 1 and requesting information from the <i>Dealer Member</i>. A <i>Dealer Member</i> will respond to the <i>Corporation's</i> early warning letter within five <i>business days</i>: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the <i>Dealer Member's</i> early warning situation if any material circumstances have changed. The <i>Dealer Member</i> must send copies of its response letter to its auditor and the <i>Investor Protection Fund</i>.	The <i>Corporation</i> will send a letter to a <i>Dealer Member</i> in early warning level 2 confirming that the <i>Dealer Member</i> has been designated as being in early warning level 2 and requesting information from the <i>Dealer Member</i>. A <i>Dealer Member</i> will respond to the <i>Corporation's</i> early warning letter within five <i>business days</i>: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the <i>Dealer Member's</i> early warning situation if any material circumstances have changed. The <i>Dealer Member</i> must send copies of its response letter to its auditor and the <i>Investor Protection Fund</i>.
On-site reviewing of the Dealer Member's procedures	The <i>Corporation</i> will as soon as practicable:	The <i>Corporation</i> will as soon as practicable:

	Early warning level 1	Early warning level 2
	(i) conduct an on-site review of the <i>Dealer Member's</i> procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	(i) conduct an on-site review of the <i>Dealer Member's</i> procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.
Reimbursing the Corporation for costs	The <i>Corporation</i> may require a <i>Dealer Member</i> to pay reasonable costs and expenses incurred to administer the <i>Dealer Member's</i> early warning situation under Rule 4100.	The <i>Corporation</i> may require a <i>Dealer Member</i> to pay reasonable costs and expenses incurred to administer the <i>Dealer Member's</i> early warning situation under Rule 4100.

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

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

4135. Restrictions on a Dealer Member in early warning

- (1) A *Dealer Member* designated as being in early warning level 1 or 2 must obtain the *Corporation's* written consent before:
- (i) reducing its capital in any way, including by share redemption, re-purchase or cancellation,
 - (ii) reducing any of its *Corporation* approved subordinated indebtedness,
 - (iii) incurring any direct or indirect loan, advance, bonus, dividend, capital or other payments or distributions of assets to any *Director, officer, partner, shareholder, related company, affiliate or associate*, or
 - (iv) incurring any commitments to increase its non-allowable assets.

4136. Additional restrictions

- (1) The *Corporation* may impose any of the following additional restrictions on a Level 4 Dealer or an *Investment Dealer Member* in early warning:

Early warning level 1	Early warning level 2
None	(i) Reducing the amount of clients' <i>free credit balances</i> that the <i>Dealer Member</i> or its <i>carrying broker</i> may use under Part C of Rule 4300, to an amount the <i>Corporation</i> considers desirable.

Early warning level 1	Early warning level 2
	(ii) Prohibiting the <i>Dealer Member</i> from opening new branch offices, hiring any new <i>Registered Representatives, Investment Representatives, Portfolio Managers</i> or <i>Associate Portfolio Managers</i> , opening any new client accounts, or changing in any material way the <i>Dealer Member's</i> inventory positions.

- (2) The *Corporation* may impose the following additional restrictions on a Level 1, 2 or 3 Dealer in early warning:

Early warning level 1	Early warning level 2
(i) Prohibiting the <i>Mutual Fund Dealer Member</i> from opening new branch offices, hiring any new <i>Approved Persons</i> , opening any new client accounts, or changing in any material way the <i>Mutual Fund Dealer Member's</i> inventory positions.	N/A

- (3) For the restrictions under early warning level 2 part (ii) of subsection 4136(1) and early warning level 1 part (i) of subsection 4136(2), the *Corporation* must provide the *Dealer Member* with a written notice of the order imposing additional restrictions on the *Dealer Member*.
- (4) Review of early warning level prohibitions
- (i) The *Dealer Member* may request a *hearing panel* review of a subsection 4136(3) order within three *business days* after release of the decision.
 - (ii) If a request for review is made, the *hearing* shall be held as soon as reasonably possible and no later than 21 days after the request for review, unless otherwise agreed by the parties. The *hearing panel* review shall be conducted in accordance with the requirements set out in Rule 9300.
 - (iii) If a *Dealer Member* does not request a review within the time period prescribed in clause 4136(4)(i), the subsection 4136(3) order becomes effective and final.

4137. Prohibited transactions

- (1) A *Dealer Member* must not enter into any transaction that would cause the *Dealer Member* to be in early warning unless it first notifies the *Corporation* in writing of its intention to do so and receives the *Corporation's* written approval.

4138. Lifting an early warning designation

- (1) A *Dealer Member* will remain designated as being in early warning level 1 or 2 until the *Corporation* confirms in writing that the early warning designation has been lifted. The *Corporation* will lift the early warning designation when the *Dealer Member* files a *monthly financial report*, or submits such other evidence or assurances, that satisfies the *Corporation* that the *Dealer Member* has solved the problems that placed it in early warning.

4139. - 4149. Reserved.

PART C - REGULATORY FINANCIAL REPORT FILING REQUIREMENTS

4150. Introduction

- (1) Part C of Rule 4100 sets out a *Dealer Member's* financial reporting obligations. Financial reporting enables the *Corporation* to monitor a *Dealer Member's* financial position and compliance with *Corporation requirements* relating to regulatory capital, as well as to receive an early indication of any deterioration in that position.

4151. Dealer Member financial filings

- (1) A *Dealer Member* must file:
 - (i) an audited Form 1 for its fiscal year within:
 - (a) seven weeks following year-end, if it is a *Mutual Fund Dealer Member* that offers margin lending to clients or an *Investment Dealer Member*,
 - (b) 90 days following year-end, if it is a *Mutual Fund Dealer Member* that does not offer margin lending to clients,
 - and
 - (ii) a *monthly financial report* for each calendar month within 20 *business days* following month-end,
 in accordance with *Corporation requirements*.

4152. Extending deadline for financial filings

- (1) A *Dealer Member* may request an extension of time for filing its *monthly financial report* by writing to the *Corporation*.
- (2) A *Dealer Member's auditor* may request an extension of time for filing the *Dealer Member's* annual Form 1 by writing to the *Corporation*.
- (3) The *Corporation* may grant an extension under subsections 4152(1) and 4152(2) if it considers the request to be appropriate in the circumstances.

4153. Late filing fee

- (1) A *Dealer Member* must pay a fee, even when an extension is granted, to the *Corporation* if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by the *Corporation*.

4154. - 4169. Reserved.

PART D - APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS

4170. Introduction

- (1) Part D of Rule 4100 sets out the minimum requirements for the appointment of auditors and for the conducting of audits. The audit requirements ensure that auditors test for specific financial and regulatory compliance issues and report any breaches of rules or standards to the *Corporation*.

4171. Approved auditors

- (1) The *Corporation* annually approves, based on adopted criteria, a list of audit firms as panel auditors eligible to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.
- (2) The *Corporation* may remove an audit firm from the approved list if the audit firm no longer meets the criteria referred to in subsection 4171(1).

4172. Dealer Member's auditor

- (1) A *Dealer Member* must use a *Corporation* approved auditor to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.
- (2) A *Dealer Member* must notify the *Corporation* of any change in the *Dealer Member's* auditor and/or audit engagement partner.

4173. Responsibilities of a Dealer Member's auditor

- (1) The *Dealer Member's* auditor must:
 - (i) conduct an audit of the *Dealer Member's* fiscal year Form 1 filing, and
 - (ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the *Dealer Member's* fiscal year Form 1 filing.

4174. No limitation on scope or procedures

- (1) Nothing in Part D of Rule 4100:
 - (i) limits the scope of the audit, or
 - (ii) allows the *Dealer Member's* auditor to omit any additional audit procedure that it considers necessary under the circumstances.

4175. Audit in accordance with Canadian Auditing Standards

- (1) The *Dealer Member's* auditor must audit the *Dealer Member's* fiscal year Form 1 filing in accordance with Canadian Auditing Standards. The audit of a *Dealer Member* requires a substantive approach and must include a review of the accounting system and the *internal controls* for safeguarding assets.
The review must:
 - (i) cover any in-house or service bureau electronic data processing operations, and
 - (ii) where applicable, consider and include the appropriate report based on the Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization.
- (2) Although conducted in accordance with Canadian Auditing Standards, a *Dealer Member's* substantive audit procedures must be performed as at the fiscal year-end audit date and not as of an earlier date.
- (3) A *Dealer Member's* risk adjusted capital and early warning reserve levels must be considered when determining materiality for the *Dealer Member's* audit.

4176. Test procedures as at the fiscal year-end date

- (1) The *Dealer Member's auditor* must conduct the test procedures in sections 4177 through 4188 as at the fiscal year-end date.

4177. Account for all investment products, currencies, and other like assets

- (1) The *Dealer Member's auditor* must account for all *investment products*, currencies and other like assets, including those held in *safekeeping* or in *segregation*, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.
- (2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.
- (3) If a *Dealer Member* has *employees* who are independent of its *employees* who handle or record *investment products*, currencies and other like assets, those independent *employees* may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.
- (4) The *Dealer Member's auditor* must test count and compare sufficient *investment product*, currency and other like asset counts with the independent *employees' counts*, if applicable, and with the *position records*, to be satisfied that the entire count was materially correct.
- (5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

4178. Verify positions in transfer and in transit

- (1) On a test basis, the *Dealer Member's auditor* must verify positions in transfer and in transit between the *Dealer Member's* offices.

4179. Review the Dealer Member's position balancing and account reconciliations

- (1) The *Dealer Member's auditor* must review the *Dealer Member's*:
 - (i) balancing of all *investment product* positions,
 - (ii) reconciliations of all broker and dealer accounts to the broker's corresponding statements,
 - (iii) reconciliations of *nominee name* mutual fund positions, clearing account positions and non-certificated instrument positions, the *Dealer Member* holds or controls (in its inventory and for clients) with the counterparty's corresponding statements, and
 - (iv) reconciliations to ensure that all necessary adjustments identified during the preparation have been made.
- (2) If a position or account is not in balance according to the *records* (after adjusting to the physical count):
 - (i) the *Dealer Member's auditor* must find out whether the *Dealer Member* has adequately provided for any potential loss, and
 - (ii) the *Dealer Member* must make that provision according to the Notes and Instructions for unresolved differences in Statement B of Form 1.

4180. Review bank reconciliations

- (1) The *Dealer Member's auditor* must:
 - (i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the *Dealer Member's* banks which cover a period ending at least 10 *business days* after the fiscal year-end audit date,
 - (ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts as of the fiscal year-end audit date and on a test basis, using appropriate audit procedures, and
 - (iii) verify that all necessary adjustments identified during the preparation of the reconciliation have been made.

4181. Review custodial agreements and approvals

- (1) Where a *Dealer Member* custodies assets with third parties, the *Dealer Member's auditor* must:
 - (i) ensure that all custodial agreements in the form prescribed by the *Corporation*, are in place for *securities*, precious metals bullion and other like assets, lodged with *acceptable securities locations*, and
 - (ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. Obtain written positive confirmations

- (1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and *investment product* positions.
- (2) The *Dealer Member's auditor* must obtain written positive confirmation of:
 - (i) all bank balances and other deposits including hypothecated *securities*,
 - (ii) all money and *investment product* positions custodied or lodged with third parties, including with clearing houses, similar organizations, and issuers of non-certificated instruments,
 - (iii) all money and *securities* loaned or borrowed (including *subordinated debt*) and details of collateral received or pledged, if any,
 - (iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and *investment product* positions,
 - (v) all accounts of *Directors* and *officers* or partners, including money and *investment product* positions held or controlled by the *Dealer Member*,
 - (vi) a sample of client, *employee*, and shareholder accounts, including money and *investment product* positions held or controlled by the *Dealer Member*,
 - (vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or as at the end of the fiscal year,

- (viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and
- (ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. Selection of accounts for positive confirmation

- (1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:
 - (i) must send a positive confirmation request,
 - (ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and
 - (iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.
- (2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:
 - (i) select specific accounts for positive confirmation based on:
 - (a) account size (all accounts with net equity exceeding a certain dollar value, based on the level of materiality), and
 - (b) other characteristics such as accounts in dispute, accounts that are significantly under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,
 - (ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and
 - (iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

4184. Written confirmation of clients' accounts with no balance

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

4185. Effect on capital if no positive written confirmation received for a guarantee

- (1) If the *Dealer Member's auditor* does not receive a reply to a positive confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the *guarantee* agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:

- (i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or
 - (ii) the parties sign a new account *guarantee* agreement.
- (2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the *guarantee*, that *guarantee* must not be accepted for margin reduction purposes until:
 - (i) the dispute is resolved, and
 - (ii) the guarantor provides a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

4186. Review a sample of signed guarantee agreements

- (1) The *Dealer Member's auditor* must review a sample of the *Dealer Member's guarantee* agreements to ensure they are signed, completed, and comply with the minimum requirements set out in subsection 5825(1).

4187. Tests and procedures on statements and schedules of Form 1

- (1) The additional information set out in Part II of Form 1 should be subjected to the procedures in the audit of Part I of Form 1, which are in accordance with Canadian Auditing Standards. No procedures are required to be carried out in addition to those necessary to form an opinion on Part I of Form 1.

4188. Test statements for a description of assets held in safekeeping

- (1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* position record and client statements accurately describe the *securities*, precious metals bullion and other like assets held in *safekeeping*.

4189. Dealer Member obligations to auditor

- (1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.
- (2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.
- (3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

4190. Calculations for Form 1 and other reporting

- (1) The *auditor*, of a *Mutual Fund Dealer Member* that offers margin lending to clients or an *Investment Dealer Member*, must perform the procedures identified in the "Agreed-upon Procedures Report on compliance for insurance, segregation of investment products, and guarantee/guarantor relationships relied upon to reduce margin requirement during the year" in Form 1 and report on the results as at the fiscal year-end audit date.
- (2) The *auditor*, of a *Mutual Fund Dealer Member* that does not offer margin lending to clients, must perform the procedures identified in the "Agreed-upon Procedures Report on

compliance for insurance and segregation of cash and investment products” in Form 1 and report on the results as at the fiscal year-end audit date.

4191. Auditor’s records

- (1) The *Dealer Member’s auditor* must retain a final copy of Form 1 and all audit working papers for seven years.
- (2) All audit working papers for the two most recent years must be readily accessible.
- (3) The *Dealer Member’s auditor* must make all working papers available for review by the *Corporation* and the *Investor Protection Fund*.

4192. Auditor’s obligation to report to the Corporation

- (1) If during the regular conduct of an audit, the *Dealer Member’s auditor* observes any material breach of *Corporation requirements* related to:
 - (i) calculating the *Dealer Member’s* financial position,
 - (ii) handling and custody of *securities*, precious metals bullion and other like assets, or
 - (iii) maintaining adequate *records*,the *Dealer Member’s auditor* must report that breach to the *Corporation*.
- (2) The *Dealer Member’s auditor* must report to the *Corporation* on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member’s risk adjusted capital* level.

4193. - 4199. Reserved.

RULE 4200 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

4201. Introduction

- (1) Rule 4200 sets out the following *Dealer Member* general financial requirements:

Part A - Financial disclosure to clients

[sections 4202 through 4209]

Part B - General internal control requirements

[sections 4220 through 4225]

Part C - Pricing internal control requirements

[sections 4240 through 4244]

Part D - Calculation of prices on a yield basis

[sections 4260 through 4267]

Part E - Professional opinions

[sections 4270 through 4276]

PART A - FINANCIAL DISCLOSURE TO CLIENTS**4202. Introduction**

- (1) If a client so requests, a *Dealer Member* must disclose its financial position to the client to enable them to assess the *Dealer Member's* financial position. Part A of Rule 4200 sets out the requirements that a *Dealer Member* must comply with in order to present this information to the client in a complete and consistent manner.

4203. Summary statement of financial position available

- (1) A *Dealer Member* must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.
- (2) The summary statement of financial position must be as at the *Dealer Member's* latest fiscal year-end date and based on its latest annual audited financial statements.
- (3) An *Investment Dealer Member* must prepare the summary statement of financial position within 75 days of its fiscal year-end.
- (4) A *Mutual Fund Dealer Member* must prepare the summary statement of financial position within 120 days of its fiscal year-end.

4204. Summary statement of financial position - contents

- (1) A *Dealer Member's* summary statement of financial position must contain material information including details of the *Dealer Member's* assets, liabilities and financial statement capital, and be generated from within the *Corporation's* regulatory financial filing system.

4205. Audited or unaudited summary statement of financial position

- (1) The summary statement of financial position must either be:

- (i) audited and accompanied by:
 - (a) a report prepared by the *Dealer Member's auditor* stating that it fairly summarizes the financial position of the *Dealer Member*, and
 - (b) notes disclosures specified by the *Dealer Member's auditor*,
- or
- (ii) unaudited and:
 - (a) generated from within the *Corporation's* regulatory financial filing system using information from the most recent audited Form 1 of the *Dealer Member*,
 - (b) certified by the *Dealer Member's Chief Financial Officer*, and
 - (c) accompanied by note disclosures that at a minimum describe, management's responsibility for the summary statement of financial position, and the basis of accounting and restriction on the use of the summary statement of financial position.

4206. Publishing a summary statement of financial position

- (1) If a *Dealer Member* publishes or circulates a summary statement of financial position in any document, it must:
 - (i) be in the same form, and
 - (ii) contain the same information,
 as the statement made available to the *Dealer Member's* clients.

4207. List of current Executives and Directors

- (1) A *Dealer Member* must provide a current list of its *Executives* and *Directors*, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

4208. Disclosures available to clients

- (1) A *Dealer Member* must state on each account statement sent to clients, or in another manner the *Corporation* approves, that:
 - (i) its summary statement of financial position, and
 - (ii) list of *Executives* and *Directors*,
 are available on request to any client who has traded in his or her account within the previous 12 months.

4209. Consolidated financial statements - similar named entity

- (1) A *Dealer Member* must disclose its financial statements separately from those of any *affiliate* or *holding company* with a similar name.
- (2) If a *Dealer Member's* accounts are included in the consolidated financial statements of its *holding company* or *affiliate* with a name similar to the *Dealer Member's*, and those consolidated financial statements are published or circulated in any document or other medium, then either:
 - (i) the consolidated financial statements must include a note indicating that:
 - (a) they relate to an entity that is not the *Dealer Member*, and

- (b) although the statements include the *Dealer Member's* accounts, they are not the *Dealer Member's* financial statements,

or

- (ii) at the time of publication or circulation, the *Dealer Member* must send to each client who has traded in his or her account within 12 months of the date of publication:
 - (a) its unconsolidated summary statement of financial position, and
 - (b) a letter explaining why the statement is being sent.

4210. - 4219. Reserved.

PART B - GENERAL INTERNAL CONTROL REQUIREMENTS

4220. Introduction

- (1) Part B of Rule 4200 sets out *Corporation requirements* for a *Dealer Member's internal controls* and risk management infrastructure. Effective *internal controls* will assist a *Dealer Member* not only in complying with *Corporation requirements* and *securities laws* but also in conducting its business with integrity and due regard to the interests of its clients.

4221. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4200:

“detective controls” (<i>contrôles de detection</i>)	Controls that discover, or increase the chances of finding, fraud or error, so the <i>Dealer Member</i> can take prompt corrective action.
“preventive controls” (<i>contrôles préventifs</i>)	Controls that prevent, or minimize the chances of, fraud and error.

4222. Adequate internal controls

- (1) A *Dealer Member* must establish and maintain appropriate *internal controls*.
- (2) The *Dealer Member's Executives* are responsible for ensuring adequate *internal controls* as part of their overall responsibility for managing the *Dealer Member's* operations.
- (3) The *Dealer Member's Executives* must use best judgment in determining whether *internal controls* are adequate.

4223. Preventive controls

- (1) When necessary, a *Dealer Member* must implement *preventive controls* based on the *Dealer Member's Executives' view* of the risk of loss and the cost-benefit relationship of controlling that risk.

4224. Written record

- (1) A *Dealer Member* must maintain a detailed written *record* of its *internal controls*, including, at a minimum, the policies and procedures the *Dealer Member's Executives* have approved to provide reasonable assurance of compliance with all *Corporation requirements* relating to *internal controls*.

4225. Review and written approval of internal controls

- (1) The *Dealer Member's Executives* must review a *Dealer Member's internal controls* for adequacy and suitability at least annually and more frequently as necessary or stipulated by *Corporation requirements*. They must approve a *Dealer Member's internal controls* in writing after each review.

4226. - 4239. Reserved.**PART C - PRICING INTERNAL CONTROL REQUIREMENTS****4240. Introduction**

- (1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that *investment products* are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used.

4241. Pricing procedures

- (1) A *Dealer Member* must consistently and accurately price all *investment products*. In Part C of Rule 4200, references to:
 - (i) *securities* include client and inventory positions in *securities* and *securities* used in financing transactions such as *security borrow and lend*, *repurchase agreement* and *reverse repurchase agreement* transactions,
 - (ii) *derivatives* include client and inventory positions in *derivatives*, and
 - (iii) *precious metals bullion* include client and inventory positions in *precious metals bullion*.
- (2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its:
 - (i) long and short *security* positions,
 - (ii) long and short *derivative* positions, and
 - (iii) long *precious metals bullion* positions,
 to ensure accurate profit and loss reporting in accordance with *Corporation requirements*.
- (3) A *Dealer Member's* policies and procedures must specifically address consistently pricing and verifying prices of *investment products*.
- (4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in *investment product records* that it uses to prepare management reports for monitoring:
 - (i) inventory profit and loss,
 - (ii) its regulatory capital position, and
 - (iii) *segregation*.
- (5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports' preparation. Conflicted *employees* must not be involved in *investment product* pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

4242. Independent price verification and adjustment

- (1) A *Dealer Member* must verify its *security* and precious metals bullion prices at each month-end by comparing them with independent (third-party) pricing sources.
- (2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).
- (3) An appropriate *Executive* must:
 - (i) on a monthly basis, approve the resolution of all material differences, and
 - (ii) on an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.

4243. Retention of supporting documents

- (1) A *Dealer Member* must retain supporting documents to show that it has verified *security* and precious metals bullion pricing and made appropriate adjustments.

4244. Access to records

- (1) *Dealer Member* employees involved in *security* and precious metals bullion trading must not have access to back-office *security* and precious metals bullion price records.

4245. - 4259. Reserved.**PART D - CALCULATION OF PRICES ON A YIELD BASIS****4260. Introduction**

- (1) Part D of Rule 4200 describes how to calculate a *security* price based on a *security's* current market yield.

4261. Definitions

- (1) The following term has the meaning set out below when used in Part D Rule 4200:

“regular delivery date” (<i>date de livraison normale</i>)	The settlement or delivery dates generally accepted in industry practice for a <i>security</i> in the market where the transaction occurs.

4262. Calculating price if no method is stated for calculating unexpired term

- (1) When a *Dealer Member* quotes a bid or offer based on yield, and neither the buyer nor seller *Dealer Member* states a price or a method for calculating the unexpired term, the price must be established according to sections 4264 through 4267.

4263. Exceptions

- (1) Sections 4264 through 4267 do not apply to trades in:
 - (i) Government of Canada bonds and bonds guaranteed by the Government of Canada,
 - (ii) short-term bonds that have:
 - (a) an unexpired term to maturity of six months or less,
 - (b) an unexpired term-to-call date of six months or less and selling at, or at a premium over, the call price, or

- (c) been called for redemption,
- (iii) bonds callable on future dates at varying prices, and
- (iv) bonds callable at the issuer's option if the call date is not stated and the bonds are selling at a premium over call price.

4264. Unexpired term - bonds with unexpired terms to maturity up to and including 10 years

- (1) For a bond with an unexpired term to maturity up to and including 10 years, calculate the unexpired term as the exact period in years, months, and days from the *regular delivery date*:
 - (i) to the maturity date of a non-callable bond or callable bond selling at less than the call price, and
 - (ii) to the first redemption date of a callable bond selling at, or at a premium over, the call price.

4265. Unexpired term - bonds with unexpired terms to maturity over 10 years

- (1) For a bond with an unexpired term to maturity of over 10 years, calculate the unexpired term as the period in years and months from the month in which the *regular delivery date* occurs:
 - (i) to the month and year of maturity of a non-callable bond or callable bond selling at less than the call price, and
 - (ii) to the first month and year that the bond is redeemable for a callable bond selling at, or at a premium over, the call price.

4266. Calculating the price and price precision

- (1) In calculating the price, the unexpired term must be expressed as years. To express the unexpired term in years:
 - (i) one day shall be deemed to be 1/30th of one month, and
 - (ii) one month shall be deemed to be 1/12th of one year.
- (2) For all bond transactions between *Dealer Members* and its clients where the price has been determined using the calculation approach set out in either section 4264 or 4265, the price must be extended to three decimal places of precision.

4267. New issues

- (1) Part D of Rule 4200 applies to new issues. The unexpired term to maturity is to start on the date that accrued interest, which is charged to the client, is calculated up to.

4268. - 4269. Reserved.

PART E - PROFESSIONAL OPINIONS

4270. Introduction

- (1) Part E of Rule 4200 sets requirements relating to *professional opinion* (defined in section 4271) standards.

4271. Definitions

(1) The following terms have the meanings set out below when used in Part E of Rule 4200:

"Corporation standards" (<i>normes de l'Organisation</i>)	The disclosure standards in Part E of Rule 4200.
"disclosure document" (<i>document d'information</i>)	The same meaning as used in relevant <i>securities laws</i> .
"fairness opinion" (<i>avis sur le caractère équitable</i>)	A report of a <i>valuer</i> that contains the <i>valuer's</i> opinion as to the fairness, from a financial point of view, of a transaction.
"formal valuation" (<i>évaluation officielle</i>)	A report of a <i>valuer</i> that contains the <i>valuer's</i> opinion as to the value or range of values of the subject matter of the valuation.
"interested party" (<i>personne intéressée</i>)	The same meaning as used in relevant <i>securities laws</i> .
"prior valuation" (<i>évaluation antérieure</i>)	The same meaning as used in relevant <i>securities laws</i> .
"professional opinion" (<i>avis professionnel</i>)	A <i>formal valuation</i> or a <i>fairness opinion</i> .
"subject transaction" (<i>opération visée</i>)	Transactions including an insider bid, issuer bid, business combinations, or related party transaction as defined in relevant <i>securities laws</i> .
"valuer" (<i>évaluateur</i>)	The person who provides a <i>professional opinion</i> .

4272. Application

- (1) The *Corporation standards* apply only to *professional opinions* that are prepared either:
- (i) pursuant to a requirement of relevant *securities laws*, or
 - (ii) for the express purpose of publication in a *disclosure document* to be filed with any Canadian *securities regulatory authority* or delivered to security holders in connection with their consideration of the *subject transaction*.
- (2) The *Corporation standards* do not apply to *professional opinions* that are either:
- (i) rendered in connection with transactions other than the *subject transactions*, whether or not they are reproduced or summarized in a *disclosure document*, or
 - (ii) reproduced or summarized in a *disclosure document* in compliance with relevant *securities laws* for the disclosure of *prior valuations* in respect of an issuer.

4273. General requirement

- (1) A *Dealer Member's professional opinion* in connection with a *subject transaction* must comply with the *Corporation standards*.

- (2) A *Dealer Member's* compliance with the *Corporation standards*:
 - (i) must not substitute the professional judgment and responsibility of the *valuer*,
 - (ii) will not be considered compliant if it is not exercised along with professional judgment and responsibility regarding disclosure in a *professional opinion*, and
 - (iii) may not be appropriate if its strict compliance is not justified using professional judgment and responsibility.

4274. General disclosure

- (1) *Professional opinions* prepared in connection with the *subject transactions* must provide disclosure that:
 - (i) enables the directors and *security* holders of the particular issuer to understand the principal judgments and principal underlying reasoning of the *valuer* in its *professional opinion*, and
 - (ii) form a reasoned view on the valuation conclusion or the opinion as to fairness expressed therein.
- (2) In reaching a valuation or fairness conclusion, a *Dealer Member* must consider certain information such as, valuation approach, definition of value, key assumptions. That information is described in Part E of Rule 4200 and may be important and required to be disclosed in a *professional opinion*.
- (3) If the *Dealer Member* receives any expressions of concerns relating to its proposed disclosure in a *professional opinion* that contain competitively or commercially sensitive information regarding an *interested party* or issuer:
 - (i) the *Dealer Member* may seek a decision of the special committee of the issuer's independent directors as to whether the perceived detriment to an *interested party* outweighs the benefit of disclosure of such information to the readers of the *professional opinion*, and
 - (ii) compliance of the *Dealer Member* with any such decision of a special committee will constitute compliance with the *Corporation standards* in respect of the matters that are the subject of the decision.

4275. Disclosure - formal valuations

- (1) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* must disclose the following information:
 - (i) the identity and credentials of the *Dealer Member*, including:
 - (a) the general experience of the *Dealer Member* in valuing other businesses in the same or similar industries as the business or issuer in question or similar transactions to the *subject transaction*,
 - (b) the *Dealer Member's* understanding of the specific marketable *securities* involved in the *subject transaction*, and
 - (c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,
 - (ii) the date the *valuer* was first contacted in respect of the *subject transaction* and the date that the *valuer* was retained,

- (iii) the financial terms of the *valuer's* retainer,
- (iv) a description of any past, present or anticipated relationship between the *valuer* and any *interested party* or the issuer which may be relevant to the *valuer's* independence for purposes of relevant *securities laws*,
- (v) the subject matter of the *formal valuation*,
- (vi) the effective date of the *formal valuation*,
- (vii) a description of any specific adjustments that have been made in the *valuer's* conclusions by reason of an event or occurrence after the effective date,
- (viii) the scope and purpose of the *formal valuation*, including the following statement:

"This formal valuation has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Name of Corporation] but [Name of Corporation] has not been involved in the preparation or review of this formal valuation",
- (ix) a description of the scope of the review conducted by the *valuer*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *valuer*),
- (x) a description of any limitation on the scope of review and the implications of such limitation on the *valuer's* conclusions,
- (xi) a description of the business, assets or *securities* being valued sufficient to allow the reader to understand the valuation rationale and approach and the various factors influencing value that were considered,
- (xii) definitions of the terms of value used in the *formal valuation* including but not limited to "fair market value", "market value" and "cash equivalent value",
- (xiii) the valuation approach and methodologies considered, including:
 - (a) the rationale for valuing the business as a going concern or on a liquidation basis,
 - (b) the reasons for selecting a particular valuation methodology, and
 - (c) a summary of the key factors considered in selecting the valuation approach and methodologies considered,
- (xiv) the key assumptions made by the *valuer*,
- (xv) any distinctive material value that the *valuer* has determined might accrue to an *interested party*, whether this value is included in the value or range of values arrived at for the subject matter of the *formal valuation* and the reasons for its inclusion or exclusion,
- (xvi) the following discussions or explanations:
 - (a) a discussion of any prior bona fide offers or *prior valuations* or other material expert reports considered by the *valuer* pertaining to the subject matter of the transaction, or
 - (b) if the *formal valuation* differs materially from any such *prior valuation*, an explanation of the material differences where reasonably practicable to do so

based on the information contained in the *prior valuation* or, if it is not reasonably practicable to do so, the reasons why it is not reasonably practicable to do so,

and

(xvii) the valuation conclusions reached and any qualifications or limitations to which such conclusions are subject.

(2) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* in connection with a *subject transaction* must disclose the following:

(i) Annual financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity for the most recently completed fiscal year as well as from the statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in financial position for the immediately preceding fiscal year.

(ii) Interim financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the most recent interim statement of financial position (if any), statement of profit or loss and other comprehensive income and statement of changes in equity for the current fiscal year and the comparable statements for the same interim period of the immediately preceding fiscal year.

(iii) Discussion of historical financial statements or financial position

(a) The *professional opinion* must include comments on material items or changes in the issuer's financial statements together with appropriate commentary on items which may have particular relevance to the *professional opinion* including but not limited to unusual capital structures, unrecognized tax-loss carry forwards and redundant assets.

(iv) Future oriented financial information

(a) To the extent that the *valuer* has relied upon future-oriented financial information, the *valuer* must disclose the future-oriented financial information, at least in summary form, unless otherwise determined by a decision of the special committee referred to in section 4274.

(b) To the extent that the future-oriented financial information relied upon by the *valuer* varies materially from the future-oriented financial information provided

to the *valuer* by the issuer or the *interested party*, the *valuer* must disclose the nature and extent of such differences and the rationale of the *valuer* supporting its judgments.

- (v) Future oriented financial information assumptions
 - (a) To the extent that future-oriented financial information is relied upon (whether or not the future-oriented financial information itself is disclosed), key financial assumptions (such as sales, growth rates, operating profit margins, major expense items, interest rates, tax rates, depreciation rates), together with a brief statement supporting the rationale for each specific assumption, must also be disclosed, unless otherwise determined by a decision of the special committee referred to in section 4274.
- (vi) Economic assumptions
 - (a) Any key economic assumptions having a material impact on the *professional opinion* must be disclosed, noting the authoritative source used by the *valuer*, including interest rates, exchange rates and general economic prospects in the relevant markets.
- (vii) Valuation approach, methodologies and analysis

The *professional opinion* must set out:

 - (a) the valuation approach and methodologies adopted by the *valuer*,
 - (b) together with the principal judgments made in selecting a particular approach or methodology,
 - (c) a comparison of valuation calculations and conclusions arrived at through the different methods considered and the relative importance of each methodology in arriving at the overall valuation conclusion, and
 - (d) the information in clauses 4275(2)(viii) through 4275(2)(xii), if relevant for the valuation techniques used.
- (viii) Discounted cash flow approach
 - (a) The *professional opinion* must include a discussion of all relevant qualitative and quantitative judgments used to calculate discount rates, multiples and capitalization rates.
 - (b) If the capital asset pricing model is used, disclosure must include the basis for determining the discount rate including the risk free rate, market risk premium, beta, tax rates and debt to equity capital structure assumed.
 - (c) The *valuer* must also disclose the basis for the determination of the terminal/residual value together with the underlying assumptions made.
 - (d) The source of the financial data which formed the basis of the discounted cash flow analysis, summary of major assumptions (if not already disclosed) and the details and sources of any economic statistics, commodity prices and market forecasts used in the valuation approach must also be disclosed.
 - (e) In addition, a summary of the sensitivity variables considered and the general results of the application of such sensitivity analysis must be disclosed along with an explanation of how such sensitivity analysis was used in the

determination of the range of valuation estimates resulting from the discounted cash flow approach.

- (f) Where the nature of the future-oriented financial information and the subject matter of the valuation make it reasonably practicable and meaningful to do so, selected quantitative sensitivity analyses performed by the *valuer* must be disclosed to illustrate the effects of variations in the key assumptions on the valuation results.
- (g) In determining whether quantitative sensitivity analyses would be meaningful to the reader of the *professional opinion*, the *valuer* must consider whether such analyses adequately reflects the *valuer's* judgment concerning the inter-relationship of the key underlying assumptions.
- (ix) Asset based valuation approach
 - (a) The *professional opinion* must separately disclose the values of each significant asset and liability including off-statement of financial position items (unless otherwise determined by a decision of the special committee referred to in section 4274).
 - (b) If a liquidation based valuation approach has been utilized, the *professional opinion* must set out the liquidation values for each significant asset and liability together with summary estimates for significant liquidation costs.
- (x) Comparable transaction approach
 - (a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant transactions involving businesses the *valuer* considers similar or comparable to the business being valued.
 - (b) Adequate disclosure must include the date of the transaction, a brief descriptive note, and relevant multiples implicit in the transaction which may include: earnings before interest and taxes multiples; earnings before interest, taxes, depreciation and amortization multiples; earnings multiples; cash flow multiples; and book value multiples; and take-over premium percentages.
 - (c) In the body of the *professional opinion* there must be a discussion of such transactions together with an explanation as to how such transactions were used by the *valuer* in arriving at a valuation conclusion with regard to the comparable transaction approach.
- (xi) Comparable trading approach
 - (a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant publicly traded companies the *valuer* considers similar or comparable to the business being valued.
 - (b) Adequate disclosure must include the date of the market data, the relevant fiscal periods for the comparable company, a brief descriptive note regarding the comparable company and relevant multiples implicit in the trading data which may include: earnings before interest and taxes multiples; earnings before interest, taxes depreciation and amortization multiples; earnings multiples, cash flow multiples; and book value multiples.

- (c) In the body of the *professional opinion* there must be a discussion as to the comparability of such companies, together with an explanation as to how such data was used by the *valuer* in arriving at a valuation conclusion with regard to the comparable trading approach.
- (xii) Valuation conclusions
 - (a) The *valuer* must develop a final valuation range by using a single valuation methodology or some combination of value conclusions determined under different methodologies/approaches.
 - (b) The *professional opinion* must include a comparison of the valuation ranges developed under each methodology and a discussion of the reasoning in support of the *valuer's* final conclusion.

4276. Disclosure - fairness opinion

- (1) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* must disclose the following information:
 - (i) the identity and credentials of the *Dealer Member*, including:
 - (a) the general experience of the *Dealer Member* in providing *fairness opinions* in connection with transactions similar to the *subject transaction*,
 - (b) the *Dealer Member's* understanding of the specific marketable securities involved in the *subject transaction*, and
 - (c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,
 - (ii) the date the *Dealer Member* was first contacted in respect of the *subject transaction* and the date that the firm was retained,
 - (iii) the financial terms of the *Dealer Member's* retainer,
 - (iv) a description of any past, present or anticipated relationship between the *Dealer Member* and any *interested party* which may be relevant to the *Dealer Member's* independence for purposes of providing the *fairness opinion*,
 - (v) the scope and purpose of the *fairness opinion*, including the following statement:

"This fairness opinion has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Amalco] but [Amalco] has not been involved in the preparation or review of this fairness opinion."
 - (vi) the effective date of the *fairness opinion*,
 - (vii) a description of the scope of the review conducted by the *Dealer Member*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *Dealer Member*),
 - (viii) a description of any limitation on the scope of review and the implications of such limitation on the *Dealer Member's* opinion or conclusion,

- (ix) a description of the relevant business, assets or *securities* sufficient to allow the reader to understand the rationale of the *fairness opinion* and the approach and various factors influencing financial fairness that were considered,
 - (x) a description of the valuation or appraisal work performed or relied upon in support of the *Dealer Member's* opinion or conclusion,
 - (xi) a discussion of any prior bona fide offer or *prior valuation* or other material expert report considered by the *Dealer Member* in coming to the opinion or conclusion contained in the *fairness opinion*,
 - (xii) the key assumptions made by the *Dealer Member*,
 - (xiii) the factors the *Dealer Member* considered important in performing its fairness analysis,
 - (xiv) the statement of opinion or conclusion as to the fairness, from a financial point of view, of the *subject transaction* and the supporting reasons, and
 - (xv) any qualifications or limitations to which the opinion or conclusion is subject.
- (2) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* in connection with a *subject transaction* must include the following:
- (i) a *fairness opinion* must include:
 - (a) a general description of any valuation analysis performed by the opinion provider, or
 - (b) specific disclosure of a valuation opinion of another *valuer* which is being relied upon,
 - (ii) the *fairness opinion* provider is not required to reach or disclose specific conclusions as to a valuation range or ranges in a *fairness opinion*,
 - (iii) the conclusion section of the *fairness opinion* must include specific reasons for the conclusion that the *subject transaction* is fair or not fair to *security* holders, from a financial point of view, and
 - (iv) support for each of these specific reasons described in clause 4276(2)(iii) must be contained in the body of the *professional opinion* in sufficient detail to allow the reader of the opinion to understand the principal judgments and principal underlying reasoning of the opinion provider in reaching its opinion as to the fairness of the transaction.

4277. - 4299. Reserved.

RULE 4300 | PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES

4301. Introduction

- (1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

Part A.1 - General segregation requirements

[sections 4311 through 4314]

Part A.2 - Bulk segregation calculation

[sections 4315 through 4319]

Part A.3 - Investment products requiring segregation: usage restrictions and correcting segregation deficiencies

[sections 4320 through 4326]

Part A.4 - Minimum segregation policies and procedures

[sections 4327 through 4332]

Part B - Custody and related internal control requirements:

Part B.1 - General custody requirements

[sections 4340 through 4343]

Part B.2 - Acceptable securities locations

[sections 4344 through 4352]

Part B.3 - Written custodial agreement requirement

[sections 4353 and 4354]

Part B.4 - Confirmation and reconciliation requirements

[sections 4355 through 4361]

Part B.5 - Margin requirements

[sections 4362 through 4368]

Part C - Client free credit balance requirements

[sections 4380 through 4386]

4302. - 4309. Reserved.

PART A - SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS

4310. Definitions

- (1) The following terms have the meaning set out below when used in Part A of Rule 4300:

“bulk segregation” (<i>dépôt fiduciaire en bloc</i>)	<i>Securities</i> , precious metals bullion and other like assets in segregation for a <i>Dealer Member</i> ’s clients that are not reserved for particular clients.

“net loan value” (<i>valeur de prêt nette</i>)	Of a <i>security</i> means: (i) for a long position, the <i>market value</i> of the <i>security</i> less any margin required, and (ii) for a short position, the <i>market value</i> of the <i>security</i> plus any margin required expressed as a negative number. Of a short <i>security</i> option position means, the <i>market value</i> of the option plus any margin required expressed as a negative number. Of a long precious metals bullion position means, the <i>market value</i> of the precious metals bullion less any margin required.
“qualifying hedge position” (<i>position de couverture admissible</i>)	For all the accounts of each client: (i) a long position in a <i>security</i>, and, (ii) a short position in a <i>security</i> issued or guaranteed by the same issuer of the <i>security</i> in clause (i) of this definition, where: (iii) the long position is convertible to or exchangeable for <i>securities</i> of the same class and number of the <i>securities</i> held in the short position, and (iv) the <i>Dealer Member</i> is using the long position as collateral to cover the short position.
“segregated investment products” (<i>produits de placement détenus en dépôt fiduciaire</i>)	<i>Securities</i>, precious metals bullion and other like assets held in <i>segregation</i> by a <i>Dealer Member</i> for a client.

PART A.1 - GENERAL SEGREGATION REQUIREMENTS

4311. Introduction

- (1) The general *segregation* requirements set out the requirements for a *Dealer Member* to segregate client fully paid and excess margin *securities*, precious metals bullion and other like assets.

4312. Fully paid and excess margin investment products requiring segregation

- (1) A *Dealer Member* holding fully paid or excess margin *securities*, precious metals bullion and other like assets for a client must:
 - (i) segregate those *investment products* and
 - (ii) identify those *investment products* as being held in trust for that client.
- (2) A *Dealer Member* must not use *segregated investment products* for its own purposes except with the express written approval of its client under the terms of a cash and *securities* loan agreement as detailed in section 5840.

- (3) The *Corporation* may prescribe:
 - (i) how *segregated investment products* are held, and
 - (ii) how the amount or value of *segregated investment products* must be calculated.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4312 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4312:

4312. Fully paid and excess margin investment products requiring segregation

- (1) A *Dealer Member* holding fully paid or excess margin *securities*, precious metals bullion and other like assets for a client must:
 - (i) *segregate* those *investment products*, and
 - (ii) identify those *investment products* as being held in trust for that client.
- (2) A *Dealer Member* must not use *segregated investment products* for its own purposes except with the written consent of its client under the terms of a written *securities* loan agreement as detailed in Rule 4600.
- (3) The *Corporation* may prescribe:
 - (i) how *segregated investment products* are held, and
 - (ii) how the amount or value of *segregated investment products* must be calculated.

4313. Restricted and non-negotiable securities

- (1) *Securities* that are restricted, non-negotiable, or that cannot be made fully negotiable solely by signature or *guarantee* of the *Dealer Member* are deemed not to be segregated, unless such *securities* are registered in the name of the client (or name of a *person* required by the client) on whose behalf they are being held in an acceptable *segregation* location.

4314. Segregation of client investment products

- (1) A *Dealer Member* holding *segregated investment products* must:
 - (i) *segregate* those *investment products* in bulk in accordance with sections 4315 through 4319, or as prescribed by the *Corporation*, or
 - (ii) *segregate* specific *investment products* for each client.
- (2) A *Dealer Member* must not hold client assets in *bulk segregation* that are subject to a written *safekeeping* agreement.

PART A.2 - BULK SEGREGATION CALCULATION

4315. Steps for bulk segregation calculation

- (1) A *Dealer Member* that segregates *investment products* in *bulk segregation* must, in accordance with sections 4316 through 4319:
 - (i) identify in its records the amount and kind of each *investment product* held for each client,
 - (ii) determine the *net loan value* and *market value* of *investment products* held in a client's account,

- (iii) calculate the number of *segregated investment products* to be segregated in bulk,
- (iv) determine the *investment products* to use to satisfy *segregation* requirements, and
- (v) perform regular calculations and compliance reviews.

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

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

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

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

(i) *Equity securities*

Number of securities required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of one unit of the security)

(ii) *Debt securities*

Principal amount of securities required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of each \$100 principal amount of the security) x 100, rounded to lowest issuable denomination

4318. Determining segregated investment products to comply with segregation requirements

- (1) A *Dealer Member* may choose any *investment products*, other than *derivatives*, from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject

to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *investment products* in a cash account be segregated before unpaid *investment products*.

- (2) A *Dealer Member* that sells *investment products* required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.
- (3) *Investment products* required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *investment products* by that client until settlement or value date.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4318 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4318:

4318. Determining segregated investment products to comply with segregation requirements

- (1) A *Dealer Member* may choose any *investment products*, other than *derivatives*, from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *investment products* in a cash account be segregated before unpaid *investment products*.
- (2) A *Dealer Member* that sells *investment products* required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.
- (3) *Investment products* required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *investment products* by that client until settlement or value date.
- (4) A *Dealer Member* that borrows or loans *securities* required to be segregated for a client must keep them segregated until the date the *securities* are borrowed or loaned.

4319. Frequency and review of bulk segregation calculation

- (1) At least twice weekly, a *Dealer Member* must determine the *investment products* required to be segregated according to the calculations in Part A.2 of Rule 4300.
- (2) A *Dealer Member* must conduct a daily review of *segregated investment products* for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the *Dealer Member* must correct it in accordance with the requirements of sections 4320 through 4326.
- (3) Every day, a *Mutual Fund Dealer Member* that does not offer margin lending to clients must determine the *investment products* required to be segregated according to the calculations in Part A.2 of Rule 4300 and ensure that all client *investment product* positions it receives are segregated.

PART A.3 – INVESTMENT PRODUCTS REQUIRING SEGREGATION: USAGE RESTRICTIONS AND CORRECTING SEGREGATION DEFICIENCIES

4320. General restrictions

- (1) A *Dealer Member* must:
 - (i) ensure that a *segregation* deficiency is not knowingly created or increased, and
 - (ii) not deliver *investment products* it holds against payment for the account of any client if those *investment products* are required to satisfy the *Dealer Member's* *segregation* requirements.

4321. Correcting segregation deficiencies

- (1) If any *segregation* deficiency exists, the *Dealer Member* must promptly take the most appropriate action necessary to correct the deficiency.
- (2) Common deficiencies and appropriate remedial actions include, but are not limited to, those in sections 4322 through 4326.

4322. Call loan segregation deficiency

- (1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the *securities* or precious metals bullion within the *business day* following the day it determines the deficiency exists.

4323. Securities loan segregation deficiency

- (1) A *Dealer Member* that determines it has a *securities* loan *segregation* deficiency must:
 - (i) recall the *securities* from the borrower, or
 - (ii) borrow the same issue of *securities* to cover the deficiency, within the *business day* following the day it determines the deficiency exists.
- (2) If the *Dealer Member* has not received the *securities* within five *business days* following the day it determines the deficiency exists, it must undertake to buy-in the *securities*.

4324. Inventory or trading account short position segregation deficiency

- (1) A *Dealer Member* that determines it has an inventory or trading account short position *segregation* deficiency must:
 - (i) borrow the same issue of *securities* to cover the deficiency within the *business day* following the day it determines the deficiency exists, or
 - (ii) undertake to purchase the same issue of *securities* immediately.

4325. Client declared short sales segregation deficiency

- (1) A *Dealer Member* that determines it has a client declared short sale *segregation* deficiency must:
 - (i) borrow the same issue of *securities* to cover the deficiency within the *business day* following the day it determines the deficiency exists, or
 - (ii) undertake to buy-in the same issue of *securities* within five *business days* following the day it determines the deficiency exists.

4326. Fails – client or other Dealer Members

- (1) If a *Dealer Member* has failed to receive *investment products* within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:
 - (i) borrow the same issue of *investment products* to cover the deficiency, or
 - (ii) undertake to buy-in the *investment products*.

PART A.4 - MINIMUM SEGREGATION POLICIES AND PROCEDURES

4327. General

- (1) A *Dealer Member* must, at a minimum, comply with the policies and procedures for *segregated investment products* in sections 4328 through 4332 and the supervision requirements in Rule 3900.

4328. Records of segregated investment products

- (1) *Segregated investment products* must be described as being held in *segregation* on a *Dealer Member's security*, precious metals bullion or similar *investment product* position record (or related *records*) and client ledger and statement of account. This description must be in substance a fair representation of how the *investment products* are being held in *segregation* at the custodian and therefore, the box locations of the *Dealer Member* must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the *Dealer Member*.

4329. Report of items requiring segregation

- (1) With the exception of the situation outlined in subsection 4329(2), a *Dealer Member* must produce a *segregation* report at least twice weekly.
- (2) A *Mutual Fund Dealer Member* that does not offer margin lending to clients must produce a *segregation* report at least monthly.

4330. Reporting segregation deficiency

- (1) A *Dealer Member* must set reasonable guidelines so that any material *segregation* deficiency is reported promptly to the *Dealer Member's* appropriate *Executives*.

4331. Authorized employees to move investment products

- (1) A *Dealer Member* must limit who can move *segregated investment products* into or out of *segregation* to only authorized employees.

4332. Supervisory review of segregation report

- (1) With the exception of the situation outlined in subsection 4332(2), a *Dealer Member* must do a *daily* supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.
- (2) A *Mutual Fund Dealer Member* that does not offer margin lending to clients must do a monthly supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.
- (3) A *Dealer Member* must do a supervisory review or adopt and implement other procedures that provide reasonable assurance the *segregation* report is complete and accurate.

4333. - 4339. Reserved.

PART B - CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS

PART B.1 - GENERAL CUSTODY REQUIREMENTS

4340. Introduction

- (1) A *Dealer Member* takes on certain operational risks when it has custody of *securities*, precious metals bullion and other like assets. These risks arise in connection with the location where and by whom they are held and whether a *Dealer Member* has adequate *internal controls* to deal with these risks. Part B of Rule 4300 prescribes *Corporation requirements* for managing the risks related to the custody of these types of *investment products*. As these risks are quantifiable, they are treated as margin charges when calculating *Dealer Member risk adjusted capital*. This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

4341. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4300:

“external acceptable securities location” (<i>lieu agréé de dépôt de titres externe</i>)	An <i>acceptable securities location</i> for <i>securities</i> , precious metals bullion and other like assets that are not under a <i>Dealer Member’s</i> physical possession but which are under a <i>Dealer Member’s</i> control.
“internal acceptable securities location” (<i>lieu agréé de dépôt de titres interne</i>)	An <i>acceptable securities location</i> for <i>securities</i> , precious metals bullion and other like assets that are in a <i>Dealer Member’s</i> physical possession or physical control. <i>Internal acceptable securities locations</i> include acceptable transfer locations.
“set-off risk” (<i>risque de compensation</i>)	The risk exposure resulting when a <i>Dealer Member</i> has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the <i>investment products</i> held by the custodian.

4342. Hold investment products in an acceptable securities location

- (1) A *Dealer Member* must hold *investment products* requiring custody, including book-based *securities*, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as “*acceptable securities locations*”.

4343. Timely deposit

- (1) A *Dealer Member* must deposit *investment products* requiring segregation in an *acceptable securities location* on a timely basis.

PART B.2 - ACCEPTABLE SECURITIES LOCATIONS**4344. Acceptable internal storage location**

- (1) *Investment product* positions in a *Dealer Member's* physical possession must be held in an internal storage location that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

4345. Acceptable internal storage location requirements

- (1) A *Dealer Member's* internal storage location must:
 - (i) be subject to ongoing adequate *internal controls* and systems for safeguarding *investment products*, and
 - (ii) hold all unencumbered *investment product* positions in the physical possession of the *Dealer Member*.

4346. Acceptable transfer locations

- (1) *Investment products* in transfer must be in the possession of a registered or recognized transfer agent and a *Dealer Member* must comply with the applicable confirmation requirements in sections 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

4347. Investment product positions not in a Dealer Member's physical possession

- (1) *Investment product* positions not in a *Dealer Member's* physical possession but which are under a *Dealer Member's* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

4348. Entities that may be external acceptable securities locations

- (1) Entities that may be *external acceptable securities locations* must comply with the *Corporation's requirements* prescribed in Rule 4300 and in Form 1. In Form 1, the entities that may qualify as "*acceptable securities locations*" are grouped into eight categories: depositories and clearing agencies, *acceptable institutions* and subsidiaries of *acceptable institutions*, *acceptable counterparties*, banks and trust companies, mutual funds or their agents, *regulated entities*, foreign institutions and foreign *securities* dealers, and entities considered suitable to hold London Bullion Market Association gold and silver good delivery bars.

4349. Approval of foreign institutions and foreign securities dealers

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

4350. Application to the Corporation for approval of foreign institutions and foreign securities dealers

- (1) A *Dealer Member* must apply in writing to the *Corporation* for review and approval of a foreign institution or foreign *securities* dealer as an *acceptable securities location*.
- (2) Prior to submission to the *Corporation* the application must be approved by the *Dealer Member's* board of directors or by a committee of the *Dealer Member's* board of directors.
- (3) The application to the *Corporation* must include the following:

Document	Contents	Form (if Corporation prescribed)
1. Foreign custodian certificate	1. <i>Dealer Member</i> responses to custodian due diligence questions 2. <i>Dealer Member</i> certification of approval of foreign custodian as a location for holding <i>investment products</i>	In a form satisfactory to the <i>Corporation</i>
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C\$150 million	

4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

- (1) For a foreign institution or foreign *securities* dealer to continue to be an *acceptable securities location*, the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must annually:
 - (i) approve in writing the foreign institution or foreign *securities* dealer, and
 - (ii) complete and sign a foreign custodian certificate for the foreign institution or foreign *securities* dealer.
- (2) The *Dealer Member* must file the foreign custodian certificate with the *Corporation*.
- (3) The annual approval by the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must be given as follows:

Document	Contents	Notes
<i>Dealer Member's</i> board material and foreign custodian certificate	<i>Dealer Member</i> board's or committee of the <i>Dealer Member</i> board's annual written approval of foreign custodian as foreign location for holding <i>investment products</i>	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination of the <i>Dealer Member</i>

- (4) Without this written approval and filed foreign custodian certificate, the location is a non-acceptable securities location.

4352. Obtaining a client waiver when an external acceptable securities location is unavailable

- (1) If a *Dealer Member* holds *investment product* positions for a client in a foreign jurisdiction where:
 - (i) *applicable laws* and circumstances may restrict the transfer of *investment product* positions from that jurisdiction, and
 - (ii) the *Dealer Member* cannot arrange to hold the client's *investment products* in the jurisdiction at an *external acceptable securities location*,
 the *Dealer Member* must obtain a waiver from the client.
- (2) The client's waiver in approved form must be obtained for each transaction.
- (3) In the waiver, the client must:
 - (i) consent to the arrangement,
 - (ii) acknowledge the risks associated with holding *investment products* at the specified foreign custodian on behalf of the *Dealer Member* in the specified country, and
 - (iii) waive any claims it may have against the *Dealer Member* and hold the *Dealer Member* harmless if the foreign custodian loses the *investment products*.
- (4) On obtaining the waiver, a *Dealer Member* may hold those client *investment products* at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

PART B.3 - WRITTEN CUSTODIAL AGREEMENT REQUIREMENT

4353. Agreement with each external securities location

- (1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:
 - (i) the *Dealer Member* must give prior written consent to any use or disposal of the *investment products*,
 - (ii) *security certificates* can be delivered promptly on demand or, if certificates are not available and the *securities* are book-based, must be transferable either from the location or to another *person* at the location promptly on demand,
 - (iii) the *investment products* are held in *segregation* for the *Dealer Member* or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian, and
 - (iv) the custodian indemnifies the *Dealer Member* against losses due to the custodian's failure to return any *investment products* or other property it holds to the *Dealer Member*. However, the custodian's liability is limited to the *market value* of the *investment products* and other property at the time it was required to deliver them to the *Dealer Member*.

When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

- (a) meet standard industry practice,
- (b) be legally enforceable, and
- (c) be of sufficient scope and in a form that is acceptable to the *Corporation*.

4354. Bare trustee custodial agreement

- (1) For book-based *security* holdings in which a *Dealer Member* does not have a written custodial agreement with an *external acceptable securities location*, the *Dealer Member* is in compliance with section 4353 if the *Corporation*, as bare trustee for *Dealer Members*, has an approved form of custodial agreement with the custodian.

PART B.4 - CONFIRMATION AND RECONCILIATION REQUIREMENTS

4355. Investment products in transit

- (1) If *investment products* are in transit between internal storage locations:
 - (i) for which there are no adequate *internal controls* maintained, or
 - (ii) for more than five *business days*,
 those *investment products* are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation*.

4356. Confirmations from external acceptable securities locations

- (1) A *Dealer Member* must receive a positive confirmation of all *investment product* positions annually at its fiscal year-end audit date from each *external acceptable securities location*.
- (2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a *investment product* position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

4357. Confirmations from transfer locations in Canada

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location in Canada, the *Dealer Member* must receive those *securities* within 20 *business days* of delivery.
- (2) If a *Dealer Member* has not received those *securities* within 20 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 45 *business days* of delivery.
- (3) If the position remains unconfirmed after 45 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4358. Confirmations from transfer locations in the United States

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location in the United States, the *Dealer Member* must receive those *securities* within 45 *business days* of delivery.

- (2) If a *Dealer Member* has not received those *securities* within 45 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 70 *business days* of delivery.
- (3) If the position remains unconfirmed after 70 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4359. Confirmations from transfer locations outside Canada and the United States

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location outside Canada and the United States, the *Dealer Member* must receive those *securities* within 70 *business days* of delivery.
- (2) If a *Dealer Member* has not received those *securities* within 70 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 100 *business days* of delivery.
- (3) If the position remains unconfirmed after 100 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4360. Confirmations of stock dividends receivable and stock splits

- (1) If a *Dealer Member* has not received the *securities* from a declared stock dividend or stock split within 45 *business days* of the date receivable, the *Dealer Member* must obtain written confirmation of the position receivable.
- (2) If the position remains unconfirmed after 45 *business days*, the *Dealer Member* must transfer the position to its difference account.

4361. Reconcile records for mutual funds and evidences of deposit

- (1) A *Dealer Member* must, at least monthly, reconcile its *records of investment products* consisting of mutual funds and evidences of deposit with *records* provided by the issuing mutual fund or financial institution.

PART B.5 - MARGIN REQUIREMENTS

4362. Acceptable securities location

- (1) For *investment products* a *Dealer Member* holds at an *acceptable securities location*, custodial related margin requirements only apply to unresolved differences.

4363. Margin charges – non-acceptable securities location

- (1) For *investment products* a *Dealer Member* holds at a non-acceptable securities location, additional margin requirements prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4352.

4364. Non-acceptable internal storage and non-acceptable securities location

- (1) If *investment products* are:
 - (i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, or

- (ii) not under a *Dealer Member's* physical possession and are held at a non-acceptable securities location because:
 - (a) the location does not meet the criteria for an *internal acceptable securities location* as specified in section 4345, or
 - (b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or
 - (c) there is no annual written approval of a foreign institution or foreign *securities dealer* as an *acceptable securities location* as specified in section 4351,
 then, when it calculates *risk adjusted capital*, a *Dealer Member* must deduct 100% of the *market value* of the *investment products* held in custody with the non-acceptable securities location.

4365. No confirmation from location

- (1) *Investment product* positions where the *Dealer Member* has not received:
 - (i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,
 - (ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or
 - (iii) a confirmation of a related stock split or stock dividend under subsection 4360(2)
 are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* and must be transferred to a *Dealer Member's* difference account.
- (2) For difference account positions in subsection 4365(1), the *Dealer Member* must:
 - (i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the *investment product* position *market value* and the normal inventory margin, and
 - (ii) undertake to borrow or buy-in the position pursuant to section 4368.

4366. No written custodial agreement

- (1) If a *Dealer Member* does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an *acceptable securities location*, it must provide margin on the *investment product* positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).
- (2) *Dealer Member* has no *set-off risk* with the custodian
 - (i) If the *Dealer Member* has no *set-off risk* with the custodian, in determining its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement 10% of the *market value* of the *investment product* positions held in custody at the custodian.
- (3) *Dealer Member* has *set-off risk* with the custodian
 - (i) If the *Dealer Member* has *set-off risk* with the custodian, in determining:
 - (a) its *risk adjusted capital*, the *Dealer Member* must deduct as a margin requirement the lesser of:

- (I) 100% of the *set-off risk* exposure, and
 - (II) 100% of the *market value* of the *investment product* positions held in custody
- and
- (b) its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement the lesser of:
 - (I) 10% of the *market value* of *investment product* positions held in custody at the custodian, and
 - (II) 100% of the *market value* of *investment product* positions held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

4367. Records - reconciliation

- (1) If a *Dealer Member* reconciles its *records* to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4361, the *Dealer Member* must provide margin based on the requirements in Form 1, Statement B, Line 24, Notes and Instructions for any unresolved differences.
- (2) If a *Dealer Member* does not reconcile its *records* with files or statements received from mutual funds, or financial institutions for evidences of deposit, it must:
 - (i) in determining its *risk adjusted capital*, deduct as a margin requirement for unresolved differences an amount equal to:
 - (a) 10% of the *market value* of the *investment products*, where there have been no transactions in the *investment products*, other than redemptions and transfers, for at least six months and no loan value has been given on the *investment products*, or
 - (b) 100% of the *market value* of the *investment products*,
 - and
 - (ii) undertake to borrow or buy-in the position pursuant to section 4368.

4368. Difference accounts

- (1) A *Dealer Member* must maintain a difference or suspense account to record all *investment product* positions not received due to unreconcilable differences or errors in any accounts.
- (2) If a *Dealer Member* has not received the *investment product* positions recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:
 - (i) borrow the *investment product* position to cover the deficiency, or
 - (ii) undertake to purchase the *investment product* immediately.

4369. - 4379. Reserved.

PART C - CLIENT FREE CREDIT BALANCE REQUIREMENTS**4380. Introduction**

- (1) Part C of Rule 4300 sets our restrictions on a *Dealer Member's* use of clients' *free credit balances* in its business, when permitted under the *Corporation requirements*.

4381. Investment Dealer Member's use of client free credit balances

- (1) An *Investment Dealer Member* may use its clients' *free credit balances* in its business only in accordance with sections 4383 to 4386.

4382. Mutual Fund Dealer Member's use of client free credit balances

- (1) A *Mutual Fund Dealer Member* must keep its clients' cash:
 - (i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an *acceptable institution*, and
 - (ii) separate from other money the *Mutual Fund Dealer Member* receives.
- (2) Despite subsection 4382(1), a Level 4 Dealer may use its clients' *free credit balances* in its business if it complies with the:
 - (i) minimum capital requirements in sub-clause 4111(3)(i)(f), and
 - (ii) client *free credit balance* usage limits and excess *free credit balance* segregation requirements in sections 4383 to 4386 and in Statement F and Schedule 2 of Form 1.

4383. Notation on client account statements

- (1) A *Dealer Member* that uses client *free credit balances* within its business and that does not keep its clients' *free credit balances*:
 - (i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an *acceptable institution*, and
 - (ii) separate from other money the *Dealer Member* receives, must clearly write the following or equivalent on all statements of account it sends to clients:

“Any free credit balances represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business.”

4384. Calculating usable free credit balances

- (1) A *Dealer Member* that uses client *free credit balances* within its business must not use client *free credit balances* that total more than the greater of:
 - (i) general free credit limit:

twelve times the *Dealer Member's* *early warning reserve* amount, or
 - (ii) margin lending adjusted free credit limit:

twenty times the *Dealer Member's* *early warning reserve* amount for margin lending purposes plus twelve times the remaining *early warning reserve* amount for all other purposes, where the remaining *early warning reserve* amount equals the *early warning reserve* amount minus 1/20th of the total settlement date client margin debit amount.

(2) A *Dealer Member* that uses client *free credit balances* within its business must segregate client *free credit balances* that are in excess of the amount calculated in subsection 4384(1) either:

- (i) in cash held in trust for clients in a separate account with a Canadian financial institution qualifying as an *acceptable institution*, and this trust property must be clearly identified as such at the *acceptable institution* or
- (ii) in the following *securities*:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by the following: - national governments of Canada, United Kingdom, and United States - Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a Basel Accord country
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> <i>Securities</i> issued by a provider of capital, as defined in the notes and instructions to Schedule

			14 of Form 1, are not eligible

4385. Weekly calculation

- (1) At least weekly, but more frequently if required, a *Dealer Member* that uses client *free credit balances* within its business must calculate the amounts that must be segregated under section 4384.

4386. Daily compliance review and required action

- (1) Every day, a *Dealer Member* that uses client *free credit balances* within its business must compare the amount of client *free credit balances* it has segregated to the amount subsection 4384(2) requires to be segregated.
- (2) Every day, a *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must determine the amount that must be segregated under subsection 4382(1).
- (3) A *Dealer Member* must identify and correct any deficiency in amounts required to be segregated under subsections 4382(1) or 4384(2) within one *business day* following the determination of the deficiency. Where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital when calculating its *risk adjusted capital*.

4387. Designated trust account

- (1) A *Dealer Member* must advise, in writing, the financial institution holding client cash segregated in trust pursuant to clause 4382(1)(i) or clause 4384(2)(i) that:
 - (i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a “trust account”,
 - (ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the *Dealer Member*, and
 - (iii) the money held in trust may not be used to cover shortfalls in any other accounts of the *Dealer Member*.

4388. - 4399. Reserved.

RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND INVESTMENT PRODUCTS, AND INSURANCE

4401. Introduction

- (1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Safekeeping requirements

[sections 4402 through 4407]

Part B - Internal controls requirements for safeguarding cash, *securities*, precious metals bullion and other like assets

[sections 4420 through 4434]

Part C - Insurance requirements

[sections 4450 through 4468]

PART A - SAFEKEEPING REQUIREMENTS**4402. Introduction**

- (1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

4403. Written safekeeping agreement

- (1) A *Dealer Member* with *securities*, precious metals bullion or other like assets held for *safekeeping* must have a written *safekeeping* agreement with each client it holds those *investment products* for.

4404. Keep assets free from encumbrance

- (1) A *Dealer Member* must keep *securities*, precious metals bullion or other like assets held for *safekeeping* free from any encumbrance.

4405. Procedures to keep assets apart

- (1) A *Dealer Member* must keep *securities*, precious metals bullion or other like assets held for *safekeeping* separate from all other positions and must have procedures in place to ensure this separation.

4406. Identifying assets held for safekeeping in records

- (1) A *Dealer Member* must specifically identify and record *securities*, precious metals bullion or other like assets held for *safekeeping* in its *securities*, precious metals bullion or similar *investment product* position records and client's ledger and statement of account.

4407. Release of assets held in safekeeping

- (1) A *Dealer Member* may release *securities*, precious metals bullion or other like assets held for *safekeeping* to others only when the client so instructs.

4408. - 4419. Reserved.

PART B - INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH, SECURITIES, PRECIOUS METALS BULLION AND OTHER LIKE ASSETS**4420. Introduction**

- (1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

4421. Safeguarding client and Dealer Member cash, securities, precious metals bullion and other like assets

- (1) A *Dealer Member* must safeguard its clients' and its own cash, *securities*, precious metals bullion and other like assets:
 - (i) to protect them against material loss, and
 - (ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis.
- (2) A *Dealer Member's* policies and procedures must specifically address the minimum requirements for safeguarding cash, *securities*, precious metals bullion and other like assets as described in sections 4422 through 4433.
- (3) The *Corporation* recognizes that a *Dealer Member* with a small operation may be unable to comply with Rule 4400 requirements to segregate duties. If these minimum requirements are inappropriate because of a *Dealer Member's* small size, it must implement alternative control procedures that the *Corporation* approves.

4422. Receipt and delivery of securities, precious metals bullion and other like assets

- (1) *Employees* who receive and deliver physical *securities*, precious metals bullion and other like assets must not have access to the *Dealer Member's securities*, precious metals bullion or similar *investment product records*.
- (2) The *Dealer Member* must handle *securities*, precious metals bullion and other like assets in a restricted and secure area.
- (3) The receipt and delivery of *securities*, precious metals bullion and other like assets must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers).
- (4) A *Dealer Member* using mail service must send negotiable certificates by registered mail.
- (5) A *Dealer Member* must obtain signed receipts from the client or agent for all *securities*, precious metals bullion and other like assets not delivered against payment.

4423. Restricting access to securities, precious metals bullion and other like assets

- (1) Only designated *employees* may physically handle *securities*, precious metals bullion or other like assets.
- (2) *Securities*, precious metals bullion and other like assets must be physically handled only in a restricted and secure area.
- (3) Only *employees* not involved in maintaining or balancing *Dealer Member records* may handle physical *securities*, precious metals bullion or other like assets.

4424. Clearing

- (1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.
- (2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.
- (3) A *Dealer Member* must take prompt action to correct differences in its *records*.
- (4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.
- (5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.
- (6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:
 - (i) a margin account agreement, or
 - (ii) a cash and *security* loan agreement,
 that has been executed in accordance with *Corporation requirements*.
- (7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4424 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4424:

4424. Clearing

- (1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.
- (2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.
- (3) A *Dealer Member* must take prompt action to correct differences in its *records*.
- (4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.
- (5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.
- (6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written consent from, and provided appropriate collateral to, the client pursuant to:
 - (i) a margin account agreement, or
 - (ii) a *securities loan* agreement,
 that has been executed in accordance with *Corporation requirements*.
- (7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

4425. Protecting securities, precious metals bullion and other like assets

- (1) A *Dealer Member* must assess the risk of any location that holds *securities*, precious metals bullion or other like assets for it and for the accounts of its clients.
- (2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository *records* (for instance, transfers between the "free" and "seg" boxes).
- (3) At least monthly, a *Dealer Member* must reconcile its *records of security*, precious metals bullion and other like asset positions to the custodian's *records* where the positions are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.
- (4) A *Dealer Member* must have a proper written custody agreement with each custodian where *securities*, precious metals bullion and other like assets are held for it or for the accounts of its clients and for which the *Dealer Member* is responsible.

4426. How to handle security, precious metals bullion and similar investment product records

- (1) *Employees* maintaining and balancing *securities*, precious metals bullion and similar *investment product records* must not be involved in handling physical *securities*, precious metals bullion and other like assets.
- (2) A *Dealer Member* must promptly update its *securities*, precious metals bullion and similar *investment product records* to reflect changes in location and ownership of *securities*, precious metals bullion and other like assets under its control.
- (3) Journal entries made to *securities*, precious metals bullion and similar *investment product records* must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

4427. Rules for counting securities, precious metals bullion and other like assets

- (1) At least once a year, a *Dealer Member* must count physical *securities*, precious metals bullion and other like assets held:
 - (i) in *segregation*, and
 - (ii) for *safekeeping*,in addition to its annual external audit physical *securities*, precious metals bullion and other like assets count.
- (2) At least monthly, a *Dealer Member* must count physical *securities*, precious metals bullion and other like assets held in current boxes.
- (3) Only *employees* who do not handle *securities*, precious metals bullion and other like assets may conduct physical *securities*, precious metals bullion and other like assets counts.
- (4) Count procedures must include all physical *securities*, precious metals bullion and other like assets held in the box location subject to the count and must simultaneously verify related positions such as positions in transit or in the process of being transferred.
- (5) During a physical *securities*, precious metals bullion and other like assets count, both the description of the asset and the quantity must be compared to the *Dealer Member's*

records. Any discrepancies must be investigated and corrected promptly. Positions not reconciled within a reasonable period must be promptly reported to the *Dealer Member's* appropriate *Executives* and accounted for.

4428. Moving certificates, securities, precious metals bullion and other like assets between branches

- (1) A *Dealer Member* must record the location of certificates in transit between its offices in separate transit accounts on its *security position records*. The *Dealer Member* must reconcile these accounts monthly.
- (2) When *securities*, precious metals bullion or other like assets are in transit, a *Dealer Member* must book out the *securities*, precious metals bullion or other like assets from the branch account and book them into the transit account. When the *securities*, precious metals bullion or other like assets are physically received at a branch, the *Dealer Member* must book them out of the transit account and into the receiving branch's account.
- (3) The receiving branch must check *securities*, precious metals bullion or other like assets received against the accompanying transit sheet.
- (4) The methods of transportation a *Dealer Member* chooses for *securities*, precious metals bullion or other like assets in transit must:
 - (i) comply with insurance policy terms, and
 - (ii) take into account the value, negotiability, urgency, and cost factors.

4429. Transferring securities

- (1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.
- (2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name. Only fully-paid *securities* (new issues excepted) may be transferred into a name other than the *Dealer Member's* name.
- (3) The transfer department may carry out transfers only when it receives a properly authorized request.
- (4) A *Dealer Member's security position record* must record, and name them as, "securities out for transfer".
- (5) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.
- (6) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.
- (7) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4429 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4429:

4429. Transferring securities

- (1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.
- (2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name.
- (3) Only fully paid *securities* may be transferred into a name other than the *Dealer Member's* name, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.
- (4) The transfer department may carry out transfers only when it receives a properly authorized request.
- (5) A *Dealer Member's security position record* must record, and name them as, "securities out for transfer".
- (6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.
- (7) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.
- (8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

4430. Re-organization

- (1) A *Dealer Member* must have a formal procedure to identify and record the timing and terms of all issuances such as forthcoming rights and offers.
- (2) A *Dealer Member* must have a clear method of communicating upcoming re-organization activities to the sales force. These include deadlines for submitting special instructions in writing and any special handling procedures required for key dates.
- (3) An authorized *employee* or department must have clear responsibility for organizing and handling each offer.
- (4) A *Dealer Member* must clearly define procedures to balance positions daily and to physically control *securities*.
- (5) A *Dealer Member* must regularly reconcile and review suspense accounts involving offers and splits.

4431. Handling dividends and interest

- (1) A *Dealer Member* must have a system to record the total dividends and interest payable and receivable at due date.
- (2) Dividend and interest record keeping *employees* must not handle cash or authorize payments.
- (3) At least monthly, a *Dealer Member* must:
 - (i) reconcile dividend and interest accounts, and

- (ii) review aged dividend receivables.
- (4) Only the department manager or another appropriate manager may authorize dividend and interest write-offs.
- (5) The department manager or another appropriate manager must approve journal entries to and from dividend and interest accounts.
- (6) *A Dealer Member*:
 - (i) must not pay dividend claims, other than as part of an automatic settlement system, unless accompanied by supporting documents such as proof of registration, and
 - (ii) must compare supporting documents with internal *records* for validity and then have the department manager or another appropriate manager approve them.
- (7) *A Dealer Member* must withhold non-resident tax when required by law.
- (8) Where required by *applicable laws*, a *Dealer Member* must ensure client income is appropriately reported for income tax purposes.

4432. Reconciling internal accounts

- (1) At least monthly, a *Dealer Member* must reconcile internal accounts.
- (2) A department manager or another appropriate manager must review the reconciliation.

4433. Cash

- (1) The department manager or another appropriate manager must review and approve all bank reconciliations.
- (2) At least monthly, a *Dealer Member* must reconcile bank accounts in writing, identifying and dating all reconciling items.
- (3) Journal entries to clear reconciling items must be made on a timely basis and approved by a department manager or another appropriate manager.
- (4) Bank accounts must be reconciled by *employees* who do not have:
 - (i) access to funds, either receipts or disbursements, or
 - (ii) access to *investment product* positions, or
 - (iii) record keeping responsibilities that include the authority to write or approve journal entries.
- (5) An appropriate *Executive* must establish criteria for approving the requisition of a cheque.
- (6) Cheques must be pre-numbered, and a *Dealer Member* must account for numerical continuity.
- (7) Blank cheques are properly safeguarded.
- (8) Cheques must be signed by two authorized *employees*.
- (9) The authorized *employees* must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque.
- (10) A *Dealer Member* must limit and supervise access to any facsimile signature machine.

- (11) A *Dealer Member* must limit the number of authorized employees permitted to withdraw funds from the bank accounts, including by way of electronic transfer.

4434. Trust accounts for client funds

- (1) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must record all client cheques upon receipt and deposit the cheques to the trust account on the day of receipt. The *Mutual Fund Dealer Member* may deposit the cheque the following *business day*, if the cheque is received after normal business hours.
- (2) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must balance deposits to the trust account daily against deposit records, receivable records and mutual fund settlement records.
- (3) A *Mutual Fund Dealer Member* that does not use client *free credit balances* within its business must segregate interest received that is payable to clients in respect of cash held in trust for clients in accordance with subsection 4382(1).

4435. - 4449. Reserved.

PART C - INSURANCE REQUIREMENTS

4450. Introduction

- (1) Part C of Rule 4400 requires a *Dealer Member* to have enough insurance to protect against potential losses from theft, fraudulent acts, and other losses.

4451. Definitions

- (1) The following terms have the meanings set out below when used in Part C of Rule 4400:

“base amount” (<i>montant de base</i>)	The greater of: (i) the aggregate client net equity for all client accounts, where net equity for each client is the net value of cash, <i>securities</i> , precious metals bullion and other <i>investment products</i> held or controlled by the <i>Dealer Member</i> on behalf of clients, and (ii) the <i>Dealer Member's</i> total allowable assets calculated in accordance with Form 1, Statement A.
“standard form financial institution bond” (<i>police d'assurance des institutions financières standard</i>)	The standard form of Financial Institution Bond insurance coverage a <i>Dealer Member</i> must obtain.

4452. Dealer Member must have insurance

- (1) A *Dealer Member* must have and maintain insurance:
- (i) against the types of loss, and
 - (ii) with at least the minimum amount of coverage, as prescribed in Part C of Rule 4400.

4453. Qualified insurance carriers

- (1) A *Dealer Member* must obtain and maintain insurance underwritten by either:
 - (i) an insurer registered or licensed under the laws of Canada or a province of Canada, or
 - (ii) a foreign insurer the *Corporation* has approved.

4454. Foreign insurers

- (1) To obtain *Corporation* approval, a foreign insurer must:
 - (i) have a minimum net worth of \$75 million on its last audited statement of financial position,
 - (ii) have financial information acceptable to, and available for inspection by, the *Corporation*, and
 - (iii) satisfy the *Corporation* that it is subject to supervision by regulatory authorities in its incorporation jurisdiction that is substantially similar to a Canadian insurance company's supervision.

4455. Mail insurance

- (1) A *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable *securities* by registered mail.
- (2) If a *Dealer Member* delivers a written promise to the *Corporation* that it will not use registered mail for outgoing shipments of *securities*, the *Dealer Member* is not required to have the mail insurance set out in subsection 4455(1).

4456. Financial institution bond

- (1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:
 - (i) **Fidelity** - Any loss, including loss of property, from a dishonest or fraudulent act of a *Dealer Member's* employees:
 - (a) committed anywhere, and
 - (b) committed alone or with others.
 - (ii) **On premises** - Any loss of money, *securities*, precious metals bullion, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of:
 - (a) the insured's offices,
 - (b) a banking institution's offices,
 - (c) a clearing house, or
 - (d) a recognized place of safe-deposit,
 all as defined in the *standard form financial institution bond*.
 - (iii) **In transit** - Any loss of money and negotiable or non-negotiable *securities*, precious metals bullion or other property, while in transit. The value of *securities*, precious metals bullion in transit in an *employee's* or *agent's* custody must not exceed the

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

- (iv) **Forgery or alterations** - Any loss through forgery or alteration of any:
 - (a) cheques,
 - (b) drafts,
 - (c) promissory notes, or
 - (d) other written orders or directions to pay sums in money,
 excluding *securities*, as defined in the *standard form financial institution bond*.
- (v) **Securities** - Any loss:
 - (a) through the purchase, acquisition, sale, delivery, extension of credit, or action on *securities* or other written instruments which prove to have been:
 - (I) forged,
 - (II) counterfeited,
 - (III) raised or altered, or
 - (IV) lost or stolen,
 or
 - (b) due to having guaranteed in writing or having witnessed any signatures on any transfers, assignments or other documents or written instruments, as defined in the *standard form financial institution bond*.

4457. Minimum insurance requirements

- (1) Level 1, 2 and 3 Dealers and *Investment Dealer Members* that are Type 1 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$200,000, and
 - (ii) ½% of the *base amount*,
 provided that the minimum amount need not exceed \$25,000,000 for each clause.
- (2) *Investment Dealer Members* that are Type 2 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$500,000, and
 - (ii) ½% of the *base amount*,
 provided that the minimum amount need not exceed \$25,000,000 for each clause.
- (3) Level 4 Dealers and *Investment Dealer Members* that are self-clearing or Type 3 or 4 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$500,000, and
 - (ii) 1% of the *base amount*,
 provided that the minimum amount need not exceed \$25,000,000 for each clause.

4458. Reserved.**4459. Double aggregate limit**

- (1) A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

4460. Calculating minimum insurance requirement and risk adjusted capital provisions

- (1) Every month, a *Dealer Member* must calculate its required minimum insurance coverage and file Schedule 12 of Form 1 with its *monthly financial report*.
- (2) In calculating minimum insurance coverage requirements, a *Dealer Member* must treat non-negotiable and negotiable form *securities* as the same.
- (3) When calculating its *risk adjusted capital* amount, a *Dealer Member* must provide capital for the amount of its insurance deductible.

4461. Correction of insufficient coverage

- (1) If a *Dealer Member* has less coverage than the calculated minimum insurance requirement coverage and the deficiency:
 - (i) is less than 10% of the minimum insurance requirement, the *Dealer Member* must correct the deficiency within two months of the filing date of the *monthly financial report* within which the deficiency was reported, or
 - (ii) is 10% or more of the insurance requirement, the *Dealer Member* must promptly notify the *Corporation* and correct the deficiency within 10 days of identifying it.

4462. Global financial institution bonds

- (1) If a *Dealer Member* maintains insurance under Part C of Rule 4400 that names the insured as, or that benefits, the *Dealer Member* and any other *person*, then:
 - (i) the *Dealer Member* must have the right to claim directly against the insurer for losses, and payment or satisfaction of losses must be made directly to the *Dealer Member*, and
 - (ii) the individual or aggregate limits under the *standard form financial institution bond* may only be affected by claims made by or for:
 - (a) the *Dealer Member*,
 - (b) the *Dealer Member's subsidiaries* whose financial results are consolidated with the *Dealer Member's*, or
 - (c) the *Dealer Member's holding company*, if the *holding company* does not carry on any business or own any investments other than its interest in the *Dealer Member*.

This applies no matter what the claims, experience, or any other factor that refers to any other *person*.

4463. Notify the Corporation of underwriter insurance termination

- (1) A *Dealer Member's standard form financial institution bond* and mail insurance policies must require the underwriter to notify the *Corporation* at least 30 days before the underwriter terminates or cancels insurance coverage.

4464. When insurance ends due to take-over

- (1) A *Dealer Member* taken over by another entity must ensure it has *standard form financial institution bond* coverage for 12 months from the date of the take-over to cover discovery of any losses it had before the take-over date.
- (2) The *Dealer Member* must ensure that any additional premium is paid.

4465. Notify the Corporation of claims

- (1) A *Dealer Member* must give written notice to the *Corporation* within two *business days* of reporting a claim to the insurer or its authorized representative.

4466. Board of directors' review and designation

- (1) A *Dealer Member's* policies and procedures must require its board of directors or the executive committee of the *Dealer Member's* board of directors to:
 - (i) review and approve the insurance requirements and level of coverage at least annually, and
 - (ii) designate an appropriate *Executive* to be responsible for insurance matters.

4467. Executive review

- (1) A *Dealer Member's* policies and procedures must require the *Executive* responsible for insurance matters:
 - (i) review regularly the terms of the *Dealer Member's* insurance policies and design of the *Dealer Member's* operating procedures so that the *Dealer Member* is in compliance with those terms,
 - (ii) monitor business changes and evaluate the need for changes in coverage or operating procedures, and
 - (iii) monitor business operations so that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.

4468. Executive prompt action

- (1) A *Dealer Member's* policies and procedures must require the appropriate *Executive* to:
 - (i) take prompt action to avert or remedy any projected or actual insurance deficiency, and
 - (ii) notify the *Corporation* immediately of any deficiencies, pursuant to clause 4461(1)(ii).

4469. - 4499. Reserved.

RULE 4500 | FINANCING ARRANGEMENTS - REPURCHASE MARKET TRADING PRACTICES

4501. Introduction

- (1) Rule 4500 sets out a standard set of trading practices to increase the transparency of the *repurchase agreement* or *reverse repurchase agreement* markets and to promote liquidity and efficiency in the markets.

4502. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4500:

“best efforts” (<i>au mieux</i>)	A <i>repurchase agreement</i> or <i>reverse repurchase agreement</i> trade where the buyer assumes the risk that the seller cannot deliver the <i>securities</i> within the specified time.
“CDSX” (CDSX)	The CDS clearing and settlement system comprising the Depository Service and the Settlement Service.
“forward repo” (<i>pension sur titres à terme</i>)	A <i>repurchase agreement</i> or <i>reverse repurchase agreement</i> trade that settles later than next day.
“general collateral” (<i>garantie générale</i>)	Government of Canada <i>debt</i> that is CDSX eligible, including real-return bonds and strips (residuals and coupons). For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date.
“inter-dealer broker” (<i>courtier intermédiaire</i>)	An organization that provides clients information, electronic trading and communications services for trading in wholesale financial markets.
“odd-lot” (<i>lot irrégulier</i>)	A lot less than \$25 million for either: (i) overnight and term <i>general collateral</i> , or (ii) specials, both term and overnight.

4503. General

- (1) A *Dealer Member* trading in the *repurchase agreement* or *reverse repurchase agreement* market that does not include all necessary terms about sales and set-offs in an agreement with the other party must make a capital adjustment as set out in Form 1.

4504. Marking to market

- (1) Unless otherwise agreed by the parties, a *Dealer Member* must periodically review its margins to ensure that they are still appropriate for the maturity dates.
- (2) Unless otherwise agreed by the parties, a *Dealer Member* that wants to mark-to-market its counterparties must do so by 11:30 a.m. The mark-to-market must be done on a net basis and not done by issue.
- (3) If the parties cannot agree on a price, the current mid-market prices must be used to determine the mark-to-market price. A *Dealer Member* must use the composite prices on an *inter-dealer broker’s* screen to determine mid-market price.

- (4) A *Dealer Member* must maintain margin through margin calls and not through substitutions.
- (5) Cash and collateral considerations:
 - (i) unless the parties agree otherwise, all dealer-to-dealer margin calls must be met with the transfer of cash or collateral,
 - (ii) if a *Dealer Member* chooses to meet the margin call with cash, the cash must not be used to change the economic nature of the trade. The cash will bear interest at the rate agreed between the parties,
 - (iii) if a *Dealer Member* chooses to meet a margin call using collateral, the collateral must have characteristics similar to or better than the *security* being repurchased or resold, be reasonably acceptable to the other party and be applied on a reasonable basis, and
 - (iv) a *Dealer Member* may deliver a maximum of one piece of collateral per million dollars.
- (6) A *Dealer Member* that wishes to substitute previously margined collateral must do so by 11:30 a.m.

4505. Forward repo trade confirmations

- (1) A *Dealer Member* must send the client a confirmation of all *forward repo* trades on the trade date of the trade agreement.
- (2) In addition to the disclosures set out in section 3816, the written confirmation must contain, at a minimum, the:
 - (i) money or par amount, as applicable,
 - (ii) start date,
 - (iii) end date,
 - (iv) interest rate,
 - (v) collateral type, and
 - (vi) any substitution rights.
- (3) All *forward repo* trades must be confirmed on the CDSX system.

4506. Obligation to make coupon payments

- (1) A *repurchase agreement* or *reverse repurchase agreement* seller must receive payment from the *repurchase agreement* or *reverse repurchase agreement* buyer of any income on the *securities* that the seller would have been entitled to if it had not entered the *repurchase agreement* or *reverse repurchase agreement* transaction.
- (2) A *repurchase agreement* or *reverse repurchase agreement* buyer does not need to transfer an amount equal to the income payment to the *repurchase agreement* or *reverse repurchase agreement* seller, but can apply it to reduce the amount transferred to the *repurchase agreement* or *reverse repurchase agreement* buyer at the end of the transaction. All *repurchase agreements* or *reverse repurchase agreements* are priced this way, unless otherwise agreed.

4507. Substitutions

- (1) A *repurchase agreement* or *reverse repurchase agreement* purchaser does not need to accept collateral substitutions unless it agreed to do so before the transaction.
- (2) Collateral passed for an overnight or term trade may be substituted on a *best efforts* basis only.

4508. General collateral repurchase agreement or reverse repurchase agreement allocations

- (1) *General collateral* transactions in the *repurchase agreement* or *reverse repurchase agreement* market are allocated based on the type of transaction. The general allocation methods for cash settlements, forward settlements and replacement transactions when substitutions occur are set out in section 4508.
- (2) Money-fill basis:
 - (i) *general collateral* transactions are completed on a money-fill basis as explained in clause 4508(2)(ii), unless otherwise agreed,
 - (ii) a transaction executed on a money-fill basis means that the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocations will be no more than two issues to make \$50 million, and
 - (iii) clause 4508(2)(ii) applies to cash trades, forward settlements and substitutions.
- (3) If a transaction is executed on a par basis:
 - (i) the allocated amount must equal the par amount for cash and forward settlements, and
 - (ii) for substitutions, the replacement transaction must be done on the basis of the par amount originally transacted.
- (4) *Special repurchase agreement* or *reverse repurchase agreement* trades must be done on a par basis.

4509. Confidentiality

- (1) Subject to subsection 4509(3), all *Dealer Members* and *inter-dealer brokers* must maintain the confidentiality of the names of the parties to a trade.
- (2) *Dealer Members* and *inter-dealer brokers* must not ask questions to try to discover the identity of a party.
- (3) Certain information may be disclosed as follows:
 - (i) for a trade that is done through an *inter-dealer broker*, a *Dealer Member* may disclose the identity of a party to only counterparties to the trade after the trade is completed,
 - (ii) an *inter-dealer broker* may inform a *Dealer Member* that it does not have a line of credit with the other party to the trade before a market is made, as long as it does not give any other information about that party,
 - (iii) for a name “give up” trade, the full names of parties must be disclosed to counterparties to the trade at the time of the trade to ensure that *Dealer Members* follow proper credit procedures, and

- (iv) subsections 4509(1) and 4509(2) do not prevent *Dealer Members* or *inter-dealer brokers* from asking or answering questions to determine the size of the bid or offer.

4510. - 4599. Reserved.

RULE 4600 | FINANCING ARRANGEMENTS - CASH AND SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

- (1) Rule 4600 covers requirements for cash and *securities* loan, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions and includes:
 - (i) definitions,
 - (ii) general requirements,
 - (iii) written agreement requirement,
 - (iv) cash and *securities* loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty*,
 - (v) cash and *securities* loans between *regulated entities*, and
 - (vi) cash and *securities* loans with other counterparties.

In CISO Bulletin 24-0067, we propose repealing and replacing the IDPC Rules section 4601 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4601:

4601. Introduction

- (1) Rule 4600 covers requirements for *cash loans*, *securities loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions.
- (2) Rule 4600 is divided into the following parts:
 - Part A – Definitions and General Requirements
[sections 4602 – 4609]
 - Part B – Specific Requirements
 - Part B.1 - Financing arrangements with certain counterparties
[section 4610- 4619]
 - Part B.2 - Borrowing retail clients fully paid and excess margin *securities*
[section 4620 – 4630]

4602. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4600:

“overnight cash loan agreement” (<i>convention de prêt d’espèces à un jour</i>)	An oral or written agreement under which a <i>Dealer Member</i> deposits cash with another <i>Dealer Member</i> for up to two <i>business days</i> .
“Schedule I chartered bank” (<i>banque à charte de l’annexe I</i>)	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars (\$1,000,000,000) or more at the time of the <i>securities</i> loan transaction.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4602 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4602:

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4600:

“financing arrangement” (<i>financement</i>)	A cash loan, a securities loan, a repurchase agreement, or a reverse repurchase agreement.
“overnight cash loan agreement” (<i>convention de prêt d’espèces à un jour</i>)	An oral or written cash loan agreement under which a Dealer Member deposits cash with another Dealer Member for up to two business days.
“Schedule I chartered bank” (<i>banque à charte de l’annexe I</i>)	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars (\$1,000,000,000) or more at the time of the cash loan or securities loan transaction.

4603. General requirements

(1) Marking to market

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

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule clause 4603(1)(i) with the following, which, once approved, we will incorporate into the DC Rules to replace clause 4603(1)(i):

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

(2) Record transactions

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

(3) Loan accounts

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

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule subsection 4603(3) with the following, which, once approved, we will incorporate into the DC Rules to replace subsection 4603(3):

(3) Loan accounts

- (i) A Dealer Member must keep Dealer Member financing arrangement accounts separate from Dealer Member securities trading accounts.

- (ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from client *securities* trading accounts.

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

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

(5) **Buy-ins**

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

4604. Written agreement requirement

- (1) If a *Dealer Member* has a cash and *securities* loan agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in section 5840.
- (2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the *securities* at any time.
- (3) If a *Dealer Member* does not have a written agreement for a *securities* loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4604 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4604:

4604. Written agreement requirements

- (1) When a *Dealer Member* enters into a *financing arrangement* agreement, other than an *overnight cash loan agreement*, that agreement must be in writing and contain the minimum provisions described in this section.
- (2) The agreement must:
 - (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,
 - (ii) set out events of default,
 - (iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,
 - (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and
 - (v) either:
 - (a) give the parties the right to set off their mutual debts, or

- (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.
- (3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.
- (4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:
 - (i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or
 - (ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*
 to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.
- (5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and 9.
- (6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

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

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

4606. Cash and securities loans between regulated entities

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

4607. Cash and securities loans with other counterparties

- (1) When a cash or *securities* loan is between a *Dealer Member* and a party to which neither section 4605 nor 4606 applies, a *Dealer Member* must comply with subsections 4607(2) and 4607(3).
- (2) *Securities* pledged as collateral must:
 - (i) be held by:
 - (a) the *Dealer Member* in *segregation*,
 - (b) an *acceptable clearing corporation*, or
 - (c) a bank or trust company that is either an *acceptable institution* or an *acceptable counterparty* under an escrow agreement. The escrow agreement

must be between the *Dealer Member* and the depository, institution, or counterparty and must be in a form acceptable to the *Corporation*,

(ii) either:

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

- (3) If a *Dealer Member* does not comply with subsection 4607(2) or clause 4603(3)(i), its *net allowable assets* are subject to a charge calculated in the same manner as for client account short *securities* balances.

4608. - 4699. Reserved.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4605 to 4607 with the following, which, once approved, we will incorporate into the DC Rules to replace sections 4605 to 4607:

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities

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

4611. - 4619. Reserved.

In CRO Bulletin 24-0067, we propose adding into the IDPC Rule 4600 the following new sections, which, once approved, we will incorporate into the DC Rule 4600:

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

- (1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:
- (i) *retail clients*, or
 - (ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

- (1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:
- (i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and
 - (ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with

Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

- (1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:
 - (i) the rights and responsibilities of each party to the agreement, including:
 - (a) the parties right to terminate the loan at any time upon prior notification
 - (b) the client's right to sell the loaned *securities* in a normal course of business,
 - (c) the client's right to the collateral in the event of the *Dealer Member's* default, including the *Dealer Member's* failure to recall the loaned *securities* within stipulated timeframes, and
 - (d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,
 - (ii) events of default,
 - (iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

- (1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:
 - (i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and
 - (ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.
- (2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

- (1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.
- (2) The collateral can be cash or, when so permitted by the *Corporation*, debt *securities* with a margin rate of 5% or less.
- (3) The collateral value must at a minimum equal:
 - (i) 102% of the market value of the *securities* borrowed, for cash collateral, or

- (ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the *Corporation* under subsection 4624(2).
- (4) The collateral must be held in a form that is acceptable to the *Corporation*.
- (5) The following are deemed acceptable forms of collateral holding:
 - (i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or
 - (ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

- (1) The lending client cannot use the *securities* loaned under this Part B.2 of Rule 4600 in any hedging strategy while such *securities* are on loan.
- (2) The borrowing *Dealer Member* or the lending client cannot reuse the assets, provided as collateral under section 4624 to secure the loan, for any other purposes.

4626. Recordkeeping

- (1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

- (1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Securities eligible for borrowing

- (1) A *Dealer Member* can borrow under Part B.2. of Rule 4600 only *securities* held by clients in their non-registered accounts.
- (2) The *Corporation* may further restrict the *securities* that a *Dealer Member* can borrow when it deems these further restrictions to be in the interest of the *Dealer Member's* clients and the public.
- (3) The *securities* eligibility restrictions are published on the *Corporation's* website.

4629. Special audit report

- (1) Upon the *Corporation's* request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member's* activity under Part B.2. of Rule 4600 and compliance with the *Corporation's* requirements.

4630. Additional requirements and restrictions

- (1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems to be in the interest of the *Dealer Member's* clients and the public and seek to further:
 - (i) increase the transparency of the lending activity,
 - (ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and
 - (iii) preserve market integrity.

4631. - 4699. Reserved.

[...]

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

5101. Introduction

- (1) Rule 5100:
 - (i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],
 - (ii) sets out the permitted arrangements under which *Mutual Fund Dealer Members* may advance funds to clients [section 5112],
 - (iii) sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and
 - (iv) sets out the definitions used within Rules 5200 through 5900 [section 5130].

5102. - 5109. Reserved.**5110. Margin requirements - purposes**

- (1) The purposes of margin requirements are to:
 - (i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,and
 - (ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading, investing or client account margin lending.
- (2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

5111. Margin requirements - general application

- (1) A *Dealer Member* must:
 - (i) obtain from and maintain for each of its clients, and
 - (ii) maintain for its own inventory accounts, minimum margin in the amount and manner prescribed by the *Corporation*.
- (2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.
- (3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on *securities* owned and sold short when calculating its *risk adjusted capital*.
- (4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the *security* or *derivative* position for which margin is being calculated.

5112. Advancing redemption proceeds and client margin lending by Mutual Fund Dealer Members

- (1) A *Mutual Fund Dealer Member* may advance funds to a client in connection with the redemption of mutual fund *securities* where:

- (i) the *Mutual Fund Dealer Member* has received prior confirmation of the redemption order from the issuer of the *securities*,
 - (ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided,
 - (iii) the client has authorized payment to and retention by the *Mutual Fund Dealer Member* of redemption proceeds,
 - (iv) the *Mutual Fund Dealer Member* maintains a copy of the confirmation of the redemption order and the client's authorization, and
 - (v) the *Mutual Fund Dealer Member* maintains a minimum capital amount of \$50,000 or higher.
- (2) A Level 4 Dealer may offer margin accounts and margin lending to clients if the *Mutual Fund Dealer Member* complies with the requirements for:
- (i) margin accounts in sections 3245 to 3247,
 - (ii) the sending of account statements in section 3851,
 - (iii) minimum capital provisioning in sub-clause 4111(3)(i)(f),
 - (iv) the filing of an audited annual Form 1 within the timeline specified in sub-clause 4151(1)(i)(a),
 - (v) the filing of an agreed-upon procedures report as required under subsection 4190(1).
 - (vi) the segregation of fully paid and excess margin *securities* in sections 4310 to 4332,
 - (vii) the calculation of margin required for *client account margin* for *investment product* positions and position offsets in Series 5000,
 - (viii) the reporting of client account cash balances and margin required in Schedule 4 of Form 1, and
 - (ix) the calculation of the *securities* concentration charge in Schedules 11, 11A and 11B of Form 1.

5113. Application of margin requirements - Dealer Member inventory positions

- (1) Section 5113 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.
- (2) **Dealer Member long inventory margin**
 A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:
- (i) applicable margin rate x *market value* of *security*, or
 - (ii) by any alternative method specified in the *Corporation requirements*.
- (3) **Dealer Member short inventory margin**
 A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:
- (i) applicable margin rate x *market value* of *security* (expressed as absolute value), or
 - (ii) by any alternative method specified in the *Corporation requirements*.

5114. Application of margin requirements - client account positions

- (1) Section 5114 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.
- (2) **Client accounts - loan value of long positions**
The *loan value* of a long position is generally calculated according to the formula:
 - (i) $[100\% - \text{applicable margin rate } \%] \times \text{positive market value of the security}$, or
 - (ii) by any alternative method specified in the *Corporation requirements*.
- (3) **Client accounts - loan value of short positions**
The *loan value* of a short client position is generally calculated according to the formula:
 - (i) $[100\% + \text{applicable margin rate } \%] \times \text{negative market value of security}$, or
 - (ii) by any alternative method specified in the *Corporation requirements*.
- (4) **Net loan value and status of a client account**
 - (i) The positive and negative *loan values* in a client margin account must be totalled.
 - (ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.
 - (iii) If the total *loan value* in a client account results in a net negative *loan value*, the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.
 - (iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

5115. Client securities that are collateral for a margin debt

- (1) If a client is in debt to a *Dealer Member*, all *securities* the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.
- (2) The *securities* a *Dealer Member* holds under subsection 5115(1) are collateral security subject to Form 1, Schedule 4 and to any agreement between the *Dealer Member* and the client.

5116. Dealer Member's rights in securities of indebted clients

- (1) A *Dealer Member* has the right to:
 - (i) raise money on,
 - (ii) carry in its general loans, and
 - (iii) pledge and repledge,
 the client *securities* it holds as collateral under section 5115.

5117. Dealer Member may buy or sell client securities

- (1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:
 - (i) buy *securities* held short for an indebted client, or
 - (ii) sell *securities* it holds for an indebted client.

5118. Dealer Member's right to recover from indebted client

- (1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's *securities*.

5119. Reserved.

5120. Margin requirements - when a rate is not specified

- (1) Where an *investment product* position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the *Corporation requirements*, the *Dealer Member* must obtain a margin rule interpretation from *Corporation* staff specifying the margin rate or requirement to be used.

[...]

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

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

RULE 1100 | APPLICATION AND INTERPRETATION

1101. Introduction

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

1102. General ~~interpretation~~application

- (1) *Corporation requirements* apply to *Dealer Members* and, if the context is appropriate, their *Approved Persons* and *employees*.
- (2) Certain requirements within these *Rules* also apply to all *Regulated Persons* other than those referred to in subsection 1102(1). Specific reference is made to *Regulated Persons* where a requirement is applicable to all *Regulated Persons*.
- (3) In the event a *Dealer Member* is registered under *securities laws* as a mutual fund dealer and an investment dealer, the *Dealer Member* and its *Approved Persons* are exempt from *Corporation requirements* that are only applicable to mutual fund dealers, provided they comply with the corresponding *Corporation requirements* that are applicable to investment dealers.
- (4) A Mutual Fund Dealer Member is prohibited from:
 - (i) offering its clients:
 - (a) a derivatives account,
 - (b) a discretionary account,
 - (c) a managed account,
 - (d) a margin account, except where it is offered in accordance with subsection 5112(2), or
 - (e) an order execution only account,
 - (ii) underwriting new issue distributions,
 - (iii) borrowing fully paid securities from clients,
 - (iv) issuing research reports, and
 - (v) using clients' free credit balances, except where they are used in accordance with subsection 4382(2).
- (5) A Mutual Fund Dealer Member or its Approved Persons shall not, directly or indirectly, engage in any securities and derivatives related business except in accordance with the following:
 - (i) all such securities and derivatives related business is carried on for the account of the Mutual Fund Dealer Member, through the facilities of the Mutual Fund Dealer Member (except as expressly provided for in these Rules) and in accordance with these Rules, other than:
 - (a) such business as it relates solely to trading in deposit instruments conducted by any Approved Person not on account of the Mutual Fund Dealer Member and,
 - (b) such business conducted by an Approved Person as an employee of a chartered bank and in accordance with the Bank Act (Canada) and the regulations thereunder, or as an employee of a credit union or caisse populaire and in

- accordance with applicable legislation governing such credit union or caisse populaire, and in each case, in accordance with applicable securities laws.
- (ii) the relationship between the *Mutual Fund Dealer Member* and any person conducting securities and derivatives related business on account of the *Mutual Fund Dealer Member* is that of:
- (a) an employer and employee, in compliance with section 2551,
- (b) a principal and agent, in compliance with Rule 2300 and section 2551, or
- (c) an introducing broker and carrying broker, in compliance with Part A of Rule 2400.
- (iii) the trade name under which such securities and derivatives related business is conducted is in accordance with Part E of Rule 2200.

1103. General interpretation

- (1) References to:
- (i) a *Dealer Member* include its *Approved Persons* and employees, if the context is appropriate,
 - (ii) a *Dealer Member's* board of directors include a *Dealer Member's* equivalent governance body for a *Dealer Member* that is not a corporation,
 - (iii) a corporation, as a type of entity to which the *Corporation requirements* apply, includes unincorporated entities if the context is appropriate, and
 - (iv) provinces include all provinces and territories of Canada.
- (52) If the context requires, words in the singular may include the plural and words in the plural may include the singular.
- (63) All times referred to in the *Corporation requirements* are Eastern Standard Time, or Eastern Daylight Savings Time when in effect, unless stated otherwise.
- (74) In the event of any dispute as to the intent or meaning of any provisions within the *Corporation requirements*, the interpretation of the *Board* is final, subject to any review or appeal procedures that may be available.

RULE 1200 | DEFINITIONS

1201. Definitions

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

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

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

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

“acceptable clearing corporation” (chambre de compensation agréée)	The same meaning as set out in ~~<i>Investment Dealer</i>~~ Form 1, General Notes and Definitions.
“acceptable counterparty” (contrepartie agréée)	The same meaning as set out in ~~<i>Investment Dealer</i>~~ Form 1, General Notes and Definitions.
~~“acceptable entity”~~ (entité agréée)	~~The same meaning as set out in <i>Mutual Fund Dealer Form 1</i>, General Notes and Definitions.~~
“acceptable exchange” (bourse agréée)	The same meaning as set out in ~~<i>Investment Dealer</i>~~ Form 1, General Notes and Definitions.
“acceptable institution” (institution agréée)	The same meaning as set out in: (i) ~~for <i>Investment Dealer Members</i>, <i>Investment Dealer Form 1</i>, General Notes and Definitions~~ , or (ii) ~~for <i>Mutual Fund Dealer Members</i>, <i>Mutual Fund Dealer</i> Form 1, General Notes and Definitions.~~
...	...
“acceptable securities location” (lieu agréé de dépôt de titres)	The same meaning as set out in: (i) ~~for <i>Investment Dealer Members</i>, <i>Investment Dealer Form 1</i>, General Notes and Definitions~~ , or (ii) ~~for <i>Mutual Fund Dealer Members</i>, <i>Mutual Fund Dealer</i> Form 1, General Notes and Definitions.~~
...	...
<u>“approved ombudsman service”</u> (<u>service d’ombudsman approuvé</u>)	<u>An ombudsman service approved by the Board in accordance with subsection 9503(1).</u>
...	...

“designated rating organization” (agence de notation désignée)	The same meaning as set out in ~~Investment Dealer~~ Form 1, General Notes and Definitions.
...	...
“early warning excess” (excédent au titre du signal précurseur)	The same meaning as set out in: (i) ~~for Investment Dealer Members, Investment Dealer~~ Form 1, Statement C, ~~or~~ (ii) ~~for Mutual Fund Dealer Members, Mutual Fund Dealer Form 1, Statement C.~~
“early warning reserve” (réserve au titre du signal précurseur)	~~This is calculated for Investment Dealer Members and has the~~ <u>The</u> same meaning as set out in ~~Investment Dealer~~ Form 1, Statement C.
...	...
“introducing broker” (remisier)	A ~~Dealer Member or a Mutual Fund Dealer Member~~ that introduces its client accounts to one or more <i>carrying brokers</i> , in accordance with the requirements set out in Rule 2400.
...	...
~~“Investment Dealer Form 1” (Formulaire 1 du courtier en placement)~~	~~A regulatory financial report that must be filed by Investment Dealer Members with the Corporation.~~
...	...
“market value” (valeur marchande)	(i) ~~for Investment Dealer Members, for~~ <u>For</u> the purposes of the monthly, quarterly, and annual reporting for ~~securities, derivatives and precious metals bullion~~ <u>investment products</u>: (a) quoted on an active market, the published price quotation using: (I) for <i>listed securities</i>, the last bid price of a long <i>security</i> and, correspondingly, the last ask price of a short <i>security</i>, as shown on a consolidated pricing list or <i>marketplace</i> quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, (II) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date, (III) for all other unlisted <i>securities</i> (including unlisted <i>debt securities</i>) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of <i>debt securities</i>, based on a reasonable yield rate, (IV) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the <i>security</i> to the term of maturity from the repurchase date. This will permit calculation of

	any profit or loss based on the market conditions at the reporting date, (V) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in paragraph (i)(a)(IV) of this definition and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and (VI) for money market repurchases with borrower call features, the borrower call price, (VII) for <i>listed derivatives</i>, the market value or settlement price on the relevant date or last trading day prior to the relevant date, (VIII) for <i>over-the-counter derivatives</i>, a value determined as reasonable by considering: (A) the market value or settlement price of the equivalent <i>listed derivative</i>, if available; and (B) values from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, and after making any adjustments considered by the <i>Dealer Member</i> to be necessary to accurately reflect the market value, (b) where a reliable price cannot be determined: (I) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the ~~security, derivative or precious metals bullion~~<u>investment product</u>, either directly or indirectly, or (II) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or (III) where insufficient recent information is available or there is a wide range of possible values and <u>position cost</u> (defined in subsection 3802(1)) represents the best value estimate within that range: (A) <u>position cost</u>, and (B) where ~~the disclosure of~~ market value information ~~is being included~~ in a client report or account statement <u>is required</u>, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar: “There is no active market for this [~~security/derivative/ precious metals bullions~~<u>specify the investment product</u>] so we have estimated its market value.” (c) where a value cannot be reliably determined under subclauses (i)(a) and (i)(b) of this definition:

	(I) no value shall be reported, and (II) where ~~the disclosure of~~ market value information ~~is being included in~~ on a client report or account statement ~~is required~~, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar: “Market value not determinable.” (ii) ~~for Investment Dealer Members, for~~ <u>For</u> the purposes of the daily and intra-day reporting for ~~securities, derivatives and precious metals bullion~~ <u>investment products</u>: (a) that are quoted on an active market, the value determined according to subclause (i)(a) of this definition, (b) where a reliable price cannot be determined and: (I) the position has been recently valued in accordance with the <i>Dealer Member's</i> valuation policies and procedures, the last value calculated for the position, or (II) the position has not been recently valued, the value and, if applicable, disclosure determined according to subclause (i)(b) of this definition, (c) where a value cannot be reliably determined under subclauses (ii)(a) and (ii)(b) above, the value and, if applicable, disclosure determined according to subclause (i)(c) of this definition. ~~or~~ ~~(iii) for Mutual Fund Dealer Members, Mutual Fund Dealer Form 1, General Notes and Definitions.~~
A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within the definition of “market value” has also been made in CRO Bulletin 24-0288.	
...	...
<u>“monthly financial report”</u> <u>(rapport financier mensuel)</u>	<u>A subset of Form 1 statements and schedules that must be completed by the Dealer Member and filed with the Corporation on a monthly basis.</u>
...	...
~~“Mutual Fund Dealer Form 1”~~ ~~(Formulaire 1 du courtier en épargne collective)~~	~~A regulatory financial report that must be filed by Mutual Fund Dealer Members with the Corporation.~~
...	...
“regulated entity” (entité réglementée)	The same meaning as set out in: ~~(i) for Investment Dealer Members, Investment Dealer Form 1, General Notes and Definitions, or~~ ~~(ii) for Mutual Fund Dealer Members, Mutual Fund Dealer Form 1, General Notes and Definitions.~~
...	...
“risk adjusted capital” (capital régularisé en fonction du risque)	The capital level maintained by a <i>Dealer Member</i>, calculated in accordance with: ~~(i) for Investment Dealer Members, Investment Dealer Form 1, or~~ <u>2.</u>

	~~{ii} — for Mutual Fund Dealer Members, Mutual Fund Dealer Form 1.~~
...	...
“total margin required” (<i>marge obligatoire totale</i>)	The same meaning as set out in: ~~{i} — for Investment Dealer Members, Investment Dealer Form 1,~~ Statement B, or ~~{ii} — for Mutual Fund Dealer Members, Mutual Fund Dealer~~ Form 1, Statement B.
...	...

1202. – 1299. Reserved.

[...]

RULE 2400 | ACCEPTABLE BACK OFFICE AND SERVICE ARRANGEMENTS

2401. Introduction

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

- (2) Sections 2401 through ~~2480-sets~~2490 set out the specific *Corporation requirements* for a number of arrangements that a *Dealer Member* may enter into and is organized as follows:

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

Part A.1 – General requirements

[sections 2403 through ~~2407~~2409]

Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements

[section 2410]

Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements

[section 2415]

Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements

[section 2420]

Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements

[section 2425]

Part A.6 – Specific requirements for Type 5 introducing broker / carrying broker arrangements between *Mutual Fund Dealer Members*

[section 2430]

~~Part B – Requirements for acceptable arrangements between a *Dealer Member* and a *Mutual Fund Dealer Member*~~

~~[sections 2430 and 2431]~~

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

[sections 2435 and 2436]

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

[sections 2460 and 2461]

Part ~~ED~~ – Prohibited back office sharing arrangements

[section 2480]

Part E – Service arrangements

[section 2490]

2402. Definitions

- (1) The following terms have the meaning set out below when used in sections 2402 through ~~2480~~2490:

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

PART A – ARRANGEMENTS BETWEEN TWO DEALER MEMBERS – GENERAL REQUIREMENTS

PART A.1 – GENERAL REQUIREMENTS

2403. Arrangements that may be executed

- (1) ~~A~~An Investment Dealer Member that wants to become an *introducing broker* may enter into one of the following *introducing broker / carrying broker arrangements* with another Investment Dealer Member:
 - (i) a Type 1 or 2 *introducing broker / carrying broker arrangement* for all of its Dealer Member related activities,
 - ~~(ii) a Type 1 or 2 introducing broker/carrying broker arrangement for all of its Dealer Member related activities other than trading in futures contracts and futures contract options;~~ or
 - (iii) a Type 3 or 4 *introducing broker / carrying broker arrangement* for one or more of its Dealer Member related activities business lines.
- ~~(2) A Mutual Fund Dealer Member that wants to become an introducing broker may enter into one of the following introducing broker / carrying broker arrangements:~~
 - ~~(i) a Type 1 or 2 introducing broker / carrying broker arrangement with an Investment Dealer Member for all its Dealer Member related activities,~~
 - ~~(ii) a Type 3 or 4 introducing broker / carrying broker arrangement with an Investment Dealer Member for one or more of its Dealer Member related activities business lines,~~
~~or~~
 - ~~(iii) a Type 5 introducing broker / carrying broker arrangement with a Mutual Fund Dealer Member for one or more of its Dealer Member related activities business lines.~~
- ~~(3) An Investment Dealer Member may carry accounts for a Mutual Fund Dealer Member if the introducing broker / carrying broker arrangement satisfies the following requirements:~~
 - ~~(i) For activities performed by the carrying broker on the introducing broker's behalf:~~
 - ~~(a) the carrying broker will be subject to and must comply with the applicable rule requirements for Investment Dealer Members within the Corporation requirements,~~
 - ~~(b) the carrying broker must perform these activities in a manner that does not interfere with the introducing broker's ability to meet its compliance obligations under sub-clause 2403(3)(ii)(a), and~~
 - ~~(c) both the introducing broker and the carrying broker retain joint responsibility for:~~
 - ~~(I) the proper performance of the activities, and~~
 - ~~(II) compliance with the applicable rules.~~
 - ~~(ii) For activities other than those performed by the carrying broker on the introducing broker's behalf:~~
 - ~~(a) the introducing broker will be subject to and must comply with the applicable rule requirements for Mutual Fund Dealer Members in the Corporation requirements,~~

- (b) the introducing broker must perform these activities in a manner that does not interfere with the carrying broker's ability to meet its compliance obligations under sub-clause 2403(3)(i)(a), and
- (c) the introducing broker retains sole responsibility for:
 - (I) the proper performance of the activities, and
 - (II) compliance with the applicable rules.

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

- (1) A Dealer Member that is an *introducing broker* under a Type 1 *introducing broker / carrying broker arrangement* with another Dealer Member:
 - (i) must not enter into any additional *introducing broker / carrying broker arrangements* with another Dealer Member ~~unless the arrangement is a Type 1 introducing broker/carrying broker arrangement or Type 2 introducing broker/carrying broker arrangement that provides back office services exclusive to trading in futures contracts and futures contract options,~~
 - (ii) must not self-clear any part of its Dealer Member related activities ~~other than self-clearing trading in futures contracts and futures contracts options,~~ and
 - (iii) must use its *carrying broker's* facilities for its principal trading, settlement, and securities custody.

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

- (1) A Dealer Member that is an *introducing broker* under a Type 2 *introducing broker / carrying broker arrangement* with another Dealer Member:
 - (i) must not enter into any additional *introducing broker / carrying broker arrangements* with another Dealer Member ~~unless the arrangement is a Type 1 introducing broker/carrying broker arrangement or Type 2 introducing broker/carrying broker arrangement that provides back office services exclusive to trading in futures contracts and futures contract options,~~
 - (ii) must not self-clear any part of its Dealer Member related activities ~~other than self-clearing trading in futures contracts and futures contracts options,~~ and
 - (iii) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

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

- (1) A Dealer Member that is an *introducing broker* under a Type 3 ~~introducing broker/carrying broker arrangement~~ or Type 4 *introducing broker / carrying broker arrangement* with another Dealer Member:
 - (i) must not enter into any Type 1 or Type 2 *introducing broker / carrying broker arrangements* for one or more of its remaining Dealer Member related activities business lines,

- (ii) may, where a business case can be made, enter into additional Type 3, 4 or 5 *introducing broker / carrying broker* ~~arrangement or Type 4 introducing broker/carrying broker~~ *arrangements for one or more of its remaining Dealer Member related activities business lines,*
- (iii) may self-clear ~~one or more~~ any part of its ~~remaining~~ *Dealer Member related activities business lines, and*
- (iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

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

- (1) A Mutual Fund Dealer Member that is an *introducing broker under a Type 5 introducing broker / carrying broker arrangement with another Mutual Fund Dealer Member:*
 - (i) must not enter into any Type 1 or Type 2 introducing broker / carrying broker arrangements for one or more of its remaining Dealer Member related activities business lines,
 - (ii) may, where a business case can be made, enter into additional Type 3, 4 or 5 introducing broker / carrying broker arrangements,
 - (iii) may self-clear any part of its Dealer Member related activities business lines, and
 - (iv) may use brokers other than its carrying broker for its principal trading, settlement, and securities custody.

2408. Introducing/carrying broker arrangement exemption

- (1) Where the Dealer Member provides a reasonable business case, the Corporation may grant the Dealer Member an exemption from one or more of the requirements in sections 2403 through 2407.
- (2) The Corporation will grant such exemption if it is satisfied that to do so would not prejudice the interests of the Dealer Member's clients, the public or the Dealer Member.
- (3) In granting such an exemption under subsection 2408(1), the Corporation may impose any terms and conditions it considers necessary.

2409. Requirement for an agreement

- (1) A Dealer Member that is an introducing broker may enter into an arrangement permitted ~~within~~ in sections 2403 through ~~2406~~ 2407 with another Dealer Member if both parties enter into a written *introducing broker / carrying broker* agreement:
 - (i) in a form acceptable to the Corporation,
 - (ii) that specifies the type of arrangement being entered into as a Type 1, ~~Type-2, Type 3, 4 or Type 4~~ 5 *introducing broker / carrying broker arrangement,*
 - (iii) whose terms comply with the requirements of ~~sections 2401 through 2480~~ Rule 2400 that apply to the type of arrangement being entered into, and
 - (iv) which is approved by the Corporation in advance of it coming into effect.

~~2408. — 2409. Reserved.~~

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$75,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin:
 - (a) for client business it carries for the *introducing broker*, and
 - (b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 57 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:
 - (a) the margin requirement,
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and
 - (c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the ~~Monthly Financial Report~~[monthly financial report](#) all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.
- (6) Net client balances / funding
 - (i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*
 - (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,

- (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).
- (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#):
 - (I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2410(4), and
 - (II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,
 - and,
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).
- (8) Concentration calculations
 - (i) When completing the concentration calculations in Schedules [911](#) and [1215](#) of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
 - (i) The *carrying broker* must segregate *securities* for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation.
- (10) Free credit segregation
 - (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement ~~D~~[E](#) of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section ~~4458~~[4457](#), and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section ~~4458~~[4457](#), and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*

- (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section ~~4458~~4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account, the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*,
 - and
 - (b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).
- (14) Parties to margin and *guarantee* documents
 - (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) To ensure ongoing disclosure of the *introducing broker* / *carrying broker* relationship to clients, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required.
- (16) Clients introduced to the *carrying broker*
 - (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.
- (17) Compliance with non-financial requirements
 - (i) The *introducing broker* and the *carrying broker* are jointly and severally responsible for compliance with all non-financial *Corporation requirements* for each account the *introducing broker* introduces to the *carrying broker* unless stated otherwise in this section.
- (18) Handling client cash
 - (i) The *introducing broker* must not accept or handle client funds in the form of money.

- (ii) With the *carrying broker's* advance approval, the *introducing broker* may accept a cheque in the *carrying broker's* name from a client whose account is carried by the *carrying broker* and:
 - (a) deliver it to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*, or
 - (b) arrange for the *carrying broker* to pick it up on the day it is received by the *introducing broker* or the next *business day*.
- (iii) A client may send a cheque directly to the *carrying broker*.
- (19) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and ~~Monthly Financial Report~~monthly financial report.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and ~~Monthly Financial Report~~monthly financial report.

2411. – 2414. Reserved.

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin:
 - (a) for client business it carries for the *introducing broker*, and
 - (b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 57 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2415(3) by the least of the following amounts:
 - (a) the margin requirement,

- (b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and
- (c) the *introducing broker's* excess risk adjusted capital.

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

(5) Reporting client balances

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

(6) Net client balances / funding

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

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

- (i) The *carrying broker* must:
 - (a) segregate security deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).
- (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#):
 - (I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2415(4), and
 - (II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,
 - and,
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any remaining deposits not classified as a non-allowable asset under sub-clause 2415(7)(ii)(a).

(8) Concentration calculations

- (i) When completing the concentration calculations in Schedules ~~911~~[911](#) and ~~1215~~[1215](#) of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

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

(10) Free credit segregation

- (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *Corporation requirements* including, but not limited to, Statement ~~DE~~ of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section ~~4458~~4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section ~~4458~~4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section ~~4458~~4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*, and
 - (b) obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(13)(i)(a).
- (14) Parties to margin and *guarantee* documents
 - (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:

- (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
- (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

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

(16) Clients introduced to the *carrying broker*

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

(17) Compliance with non-financial requirements

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

(18) Handling client cash

- (i) The *introducing broker* must not accept or handle client funds in the form of money.
- (ii) The *introducing broker* may accept a cheque from a client in the name of the *introducing broker* or *carrying broker*, provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*.

(19) Reporting of *introducing broker* principal positions

- (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).
- (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).

2416. – 2419. Reserved.

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

2420. Type 3 introducing broker/carrying arrangement – requirements

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin:
 - (a) for principal business it introduces to the *carrying broker*, and
 - (b) for client business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 57 of Form 1.
- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2420(3) by the lesser of the following amounts:
 - (a) the margin requirement, and
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

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

- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and ~~Monthly Financial Report~~monthly financial report all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.
 - (ii) The *carrying broker* must report on its Form 1 and ~~Monthly Financial Report~~monthly financial report one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.
 - (iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.
- (6) Net client balances / funding
 - (i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*

- (i) The *carrying broker* must:
 - (a) segregate security deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).
- (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2420(4), and
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any remaining deposits not classified as a non-allowable asset under sub-clause 2420(7)(ii)(a).
- (8) Concentration calculations
 - (i) When completing the concentration calculations in Schedules ~~911~~[911](#) and ~~1215~~[1215](#) of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
 - (i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with Corporation requirements relating to segregation.
- (10) Free credit segregation
 - (i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with Corporation requirements including, but not limited to, Statement ~~DE~~[DE](#) of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457 and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:

- (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must advise the client of:
 - (a) its relationship to the *carrying broker*, and
 - (b) the client's relationship to the *carrying broker*.
- (14) Parties to margin and *guarantee* documents
 - (i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.
- (15) Disclosure on contracts, statements and correspondence
 - (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
 - (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outline the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

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

- (16) Clients introduced to the *carrying broker*

- (i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *Corporation requirements*.
- (17) Compliance with non-financial requirements
 - (i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *Corporation requirements* unless stated otherwise in this section.
- (18) Handling client cash
 - (i) The *introducing broker* may accept or handle client funds in the form of money.
 - (ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:
 - (a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or
 - (b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.
- (19) Reporting of *introducing broker* principal positions
 - (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and ~~Monthly Financial Report~~[*monthly financial report*](#).
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and ~~Monthly Financial Report~~[*monthly financial report*](#).

2421. – 2424. Reserved.

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

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

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

- (1) Minimum capital requirement
 - (i) The *introducing broker* must maintain at all times minimum capital of \$250,000 for the purposes of calculating *risk adjusted capital*.
- (2) Margin requirements to be provided by the *introducing broker*
 - (i) The *introducing broker* must maintain the required margin:
 - (a) for principal business it introduces to the *carrying broker*, and
 - (b) for client business it introduces to the *carrying broker*.
- (3) Margin requirements to be provided by the *carrying broker*
 - (i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the

introducing broker in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule [57](#) of Form 1.

- (4) Offsets of *carrying broker* margin requirements against deposits
 - (i) The *carrying broker* may reduce any margin it is required to provide under subsection 2425(3) by the lesser of the following amounts:
 - (a) the margin requirement, and
 - (b) the loan value of any *introducing broker* deposits held by the *carrying broker*. Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.
- (5) Reporting client balances
 - (i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and the ~~Monthly Financial Report~~[monthly financial report](#) all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.
 - (ii) The *carrying broker* must report on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.
 - (iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.
- (6) Net client balances / funding
 - (i) The *introducing broker* must meet financing requirements for client accounts it introduces to the *carrying broker*.
- (7) Deposits provided to the *carrying broker* by the *introducing broker*
 - (i) The *carrying broker* must:
 - (a) segregate *security* deposits provided by the *introducing broker*,
 - (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
 - (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and ~~Monthly Financial Report~~[monthly financial report](#).
 - (ii) The *introducing broker* must:
 - (a) report as a non-allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2425(4), and
 - (b) report as an allowable asset on the *introducing broker's* Form 1 and ~~Monthly Financial Report~~[monthly financial report](#) any remaining deposits not classified as a non-allowable asset under sub-clause 2425(7)(ii)(a).
- (8) Concentration calculations

- (i) When completing the concentration calculations in Schedules 911 and 1215 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.
- (9) Segregating client securities
 - (i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *Corporation requirements* relating to segregation.
- (10) Free credit segregation
 - (i) The *introducing broker* must segregate free credits for client accounts it introduces to the *carrying broker* in accordance with *Corporation requirements* including, but not limited to, Statement DE of Form 1.
- (11) Insurance coverage requirements of the *introducing broker*
 - (i) The *introducing broker* must:
 - (a) include all accounts introduced to the *carrying broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (12) Insurance coverage requirements of the *carrying broker*
 - (i) The *carrying broker* must:
 - (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455,
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (13) Client account opening required disclosure
 - (i) At the time of opening a client account the *introducing broker* must advise the client of:
 - (a) its relationship to the *carrying broker*, and
 - (b) the client's relationship to the *carrying broker*.

(14) Parties to margin and *guarantee* documents

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

(15) Disclosure on contracts, statements and correspondence

- (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
 - (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents,
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2425(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

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

(17) Compliance with non-financial requirements

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

(18) Handling client cash

- (i) The *introducing broker* may accept or handle client funds in the form of money.
- (ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

- (a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or
 - (b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.
- (19) Reporting of *introducing broker* principal positions
- (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and ~~Monthly Financial Report~~monthly financial report.
 - (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and ~~Monthly Financial Report~~monthly financial report.

2426. – 2429. Reserved.

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

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

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

(1) Minimum capital requirement

- (i) The *carrying broker* must maintain at all times minimum capital of \$200,000 for the purposes of calculating *risk adjusted capital*.
- (ii) The *introducing broker* must maintain at all times the minimum capital requirements of subsection 4111(3) for a Level 1, 2, 3 or 4 Dealer for the purposes of calculating *risk adjusted capital*.

(2) Reporting of client balances

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

(3) Reporting of *introducing broker* principal positions

- (i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and *monthly financial report*.
- (ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and *monthly financial report*.

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

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

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

(i) The *carrying broker* must:

- (a) segregate security deposits provided by the *introducing broker*,
- (b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and
- (c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and monthly financial report.

(ii) The *introducing broker* must:

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

(6) Segregating client securities

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

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

(7) Segregating client cash

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

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

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

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

(i) The *introducing broker* must:

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

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

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

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

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

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

(i) The *carrying broker* must:

- (a) include all accounts it carries for the *introducing broker*:
 - (I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and
 - (II) when determining adequate insurance coverage levels for registered mail under section 4455.
 - (b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and
 - (c) maintain adequate insurance for registered mail specified under section 4455.
- (10) Client account opening required disclosure
- (i) At the time of opening a client account the *introducing broker* must:
 - (a) advise the client of:
 - (I) its relationship to the *carrying broker*, and
 - (II) the client's relationship to the *carrying broker*, and
 - (b) for a Level 1 Dealer *introducing broker*, obtain from the client a *Corporation* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2430(10)(i)(a), and
 - (c) for a Level 2 Dealer *introducing broker*, include an explanation that all client cheques shall be payable to the issuer or *carrying broker*, as applicable.
- (11) Disclosure on contracts, statements and correspondence
- (i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker / carrying broker* relationship to clients as follows:
 - (a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker / carrying broker* relationship is not required, or
 - (b) where the *introducing broker* elects to provide annual relationship disclosure:
 - (I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and
 - (II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:
 - (A) the *introducing broker* and the *carrying broker*, and
 - (B) the client and the *carrying broker*.
- However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2430(11)(i)(b)(II) is not required.

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

(12) Clients introduced to the *carrying broker*

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

(13) Compliance with non-financial requirements

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

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

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

(14) Handling client cash

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

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

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

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

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

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

PART B — ~~REQUIREMENTS FOR ACCEPTABLE ARRANGEMENTS BETWEEN A DEALER MEMBER AND A MUTUAL FUND DEALER~~

2430. ~~Arrangements between investment dealers and mutual fund dealers~~

- (1) ~~A Dealer Member may carry accounts for a Mutual Fund Dealer Member provided that:~~
- ~~(i) — the Dealer Member and the Mutual Fund Dealer Member shall enter into a written introducing broker / carrying broker agreement evidencing the arrangement and reflecting the requirements of section 2431 and such other matters as may be required by the Corporation;~~
 - ~~(ii) — the arrangement (including the form of agreement referred to in section 2431) 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~~
 - ~~(iii) — the arrangement shall be in compliance with the Corporation's Investment Dealer and Partially Consolidated Rules, Mutual Fund Dealer Rules and Universal Market Integrity Rules and securities laws applicable to the introducing and carrying dealer or, where for a particular activity the introducing broker or carrying broker cannot comply with the requirements applicable to them, the introducing broker and carrying broker must request exemptive relief from the Corporation that specifies the manner in which the activity must be performed.~~

2431. ~~Requirements that apply to each party involved in the arrangement~~

- (1) ~~A Dealer Member may enter into an agreement with a Mutual Fund Dealer Member in accordance with section 2430 if it satisfies the following requirements:~~
- ~~(i) — For activities performed by the carrying broker on the introducing broker's behalf:~~
 - ~~(a) — the carrying broker will be subject to and must comply with the applicable rule requirements within the Corporation's Investment Dealer and Partially Consolidated Rules and Universal Market Integrity Rules;~~
 - ~~(b) — the carrying broker must perform these activities in a manner that does not interfere with the introducing broker's ability to meet its compliance obligations under sub-clause 2431(1)(ii)(a); and~~
 - ~~(c) — both the introducing broker and the carrying broker retain joint responsibility for:~~
 - ~~(I) — the proper performance of the activities; and~~
 - ~~(II) — compliance with the applicable rules.~~
 - ~~(ii) — For activities other than those performed by the carrying broker on the introducing broker's behalf:~~
 - ~~(a) — the introducing broker will be subject to and must comply with the Corporation's Mutual Fund Dealer Rules;~~
 - ~~(b) — the introducing broker must perform these activities in a manner that does not interfere with the carrying broker's ability to meet its compliance obligations under sub-clause 2431(1)(i)(a); and~~
 - ~~(c) — the introducing broker retains sole responsibility for:~~

- ~~(I) — the proper performance of the activities, and~~
- ~~(II) — compliance with the applicable rules.~~

~~2431~~2432 - 2434. Reserved.

PART ~~CB~~ - ARRANGEMENTS BETWEEN A DEALER MEMBER AND A FOREIGN AFFILIATE DEALER

2435. Arrangements that may be executed with a foreign affiliate

- (1) A *Dealer Member* may carry the client accounts of its foreign *affiliate* dealer if:
 - (i) the *Dealer Member* enters into an *introducing broker / carrying broker* agreement type that is permissible pursuant to sections 2403 through ~~2425~~2430 to be entered into between two *Dealer Members*,
 - (ii) the *Dealer Member* complies with the applicable conditions and requirements that apply to *introducing broker / carrying broker* agreement type set out in sections 2403 through 2425, including the requirement to enter into a written agreement,
 - (iii) the written agreement is:
 - (a) in a form acceptable to the *Corporation*,
 - (b) specifies the type of arrangement being entered into is a Type 1, ~~Type-2~~, ~~Type 3, 4~~ or ~~Type-45~~ *introducing broker / carrying broker* arrangement,
 - (c) includes terms that comply with the requirements of ~~sections 2401 through 2480~~Rule 2400 that apply to the type of arrangement being entered into, and
 - (d) approved by the *Corporation* in advance of it coming into effect,
- and,
- (iv) the *Dealer Member* complies with the additional conditions set out in section 2436.

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

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

- (1) Annual disclosure requirement
 - (i) The foreign *affiliate*, at least annually, must provide written disclosure in a form satisfactory to the *Corporation*, to each of its clients whose accounts are carried by the *Dealer Member* outlining:
 - (a) the relationship between the *Dealer Member* and its foreign *affiliate*,
 - (b) the relationship between the *Dealer Member* and the foreign *affiliate's* client, and
 - (c) any *Investor Protection Fund* coverage limitations on those client accounts.
- (2) Foreign jurisdiction approval
 - (i) The *Dealer Member* must provide written approval of the arrangement between the *Dealer Member* and its foreign *affiliate* from the foreign *affiliate's* regulatory authority.
- (3) Responsibility for compliance

- (i) The *Dealer Member's* foreign affiliate is not required to comply with *Corporation requirements* solely because of the arrangement.
- (4) Reporting balances
 - (i) When calculating *risk adjusted capital* the *Dealer Member* must report on Statement A and Schedule 3 or Schedule 4, as applicable, of Form 1 and the ~~Monthly Financial Report~~monthly financial report one balance owing to or from its foreign affiliate representing the accounts of the clients it carries on behalf of its foreign affiliate.
- (5) Segregating securities
 - (i) The *Dealer Member* must *segregate securities* it holds for its foreign affiliate's clients in accordance with *Corporation requirements* relating to *segregation*.
- (6) Insurance
 - (i) The *Dealer Member* must include all accounts introduced to it by its foreign affiliate when calculating client net equity for minimum Financial Institution Bond coverage under section 4457~~and 4458~~.

2437. – 2459. Reserved.

PART ~~DC~~ - PERMITTED ARRANGEMENTS THAT ARE NOT CONSIDERED TO BE INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS

2460. Certain arrangements executed with a Canadian financial institution affiliate

- (1) A *Dealer Member's* arrangement under which employees of its *affiliate* handle *securities* clearing and settlement, maintain *records*, or perform operational functions is not considered an *introducing / carrying broker arrangement* for the purposes of ~~sections 2401 through 2480~~Rule 2400 provided the custodial functions are handled on a segregated basis according to *Corporation requirements* and the *affiliate* is:
 - (i) a chartered bank,
 - (ii) an insurance company governed by federal or provincial insurance legislation, or
 - (iii) a loan or trust company governed by federal or provincial loan and trust company legislation.

2461. Certain arrangements with other dealers

- (1) A *Dealer Member's* clearing arrangement under which it acts as the clearing broker for another dealer is permitted and is not considered an *introducing broker / carrying broker arrangement* for the purposes of ~~sections 2401 through 2480~~Rule 2400, provided that the arrangement also qualifies as a clearing arrangement under the rules of the relevant ~~exchange or self-regulatory organization~~SRO in the jurisdiction of the other dealer.

2462. – 2479. Reserved.

PART ~~ED~~ - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS

2480. Prohibited introducing broker / carrying broker arrangements

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

- (i) another *Dealer Member*, in accordance with the requirements in sections 2403 through ~~2425~~,
- ~~(ii) a *Mutual Fund Dealer Member*, in accordance with the requirements in sections 2430 and 2431, or~~
- (ii) a foreign *affiliate dealer*, in accordance with the requirements in sections 2435 and 2436.

2481. – 2489. Reserved.

PART E - SERVICE ARRANGEMENTS

2490. Acceptable service arrangements

- (1) A Dealer Member or Approved Person may enter into a service arrangement provided:
 - (i) both parties enter into a written agreement describing all material terms of the services to be provided,
 - (ii) a copy of the written service arrangement, along with any changes or notice of termination, must be provided to the Corporation upon request,
 - (iii) any remuneration or compensation for services provided under the service arrangement is paid directly to the person providing the services, and
 - (iv) records of the service arrangement payments are maintained in accordance with Corporation requirements.
- (2) A Dealer Member or Approved Person receiving services under a service arrangement is responsible for compliance with all relevant Corporation requirements, securities laws and applicable laws.
- (3) Any person preparing or maintaining records as a service for a Dealer Member or Approved Person, under a service arrangement, must:
 - (i) comply with the recordkeeping requirements in Rule 3800, and
 - (ii) make the records available for review by the Dealer Member or Approved Person and by the Corporation in accordance with Corporation requirements.
- (4) The Corporation may request that the Dealer Member or Approved Person provide additional information related to a service arrangement.

2491. – 2499. Reserved.

[...]

RULE 2700 | CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2701. Introduction

- (1) The *Corporation* requires *Approved Persons* to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies.
- (2) Rule 2700 is divided into the following parts:

Part A – [Continuing education requirements for Investment Dealer Members' Approved Persons](#)

[\[sections 2702 – 2755\]](#)

[Part A.1](#) – The [Investment Dealer Member's](#) continuing education program and continuing education requirements
[sections 2703 and 2704]

~~Part B~~ [A.2](#) – [Investment Dealer Member's](#) Continuing education program courses and administration
[sections 2715 through 2717]

~~Part C~~ [A.3](#) – Participation in the [Investment Dealer Member's](#) continuing education program
[sections 2725 and 2726]

~~Part D~~ [A.4](#) – Changes during ~~a~~[an Investment Dealer Member's](#) continuing education program cycle
[section 2735]

~~Part E~~ [A.5](#) – Discretionary relief
[section 2745]

~~Part F~~ [A.6](#) – Penalties applicable to the [Investment Dealer Member's](#) continuing education requirements for Approved Persons
[section 2755]

[Part B – Continuing education requirements for Mutual Fund Dealer Members' Approved Persons](#)

[\[sections 2761-2789\]](#)

[Part B.1](#) – [Proration of Credits](#)
[\[sections 2763-2765\]](#)

[Part B.2](#) – [Leaves of absence](#)
[\[sections 2766-2767\]](#)

[Part B.3](#) – [Component content](#)
[\[sections 2768-2771\]](#)

[Part B.4](#) – [Delivery standard](#)
[\[sections 2772-2773\]](#)

Part B.5 – Accreditation[sections 2774-2778]Part B.6 – Evidence of completion[sections 2779-2780]Part B.7 – Reporting[sections 2781-2785]Part B.8 – Assessments[sections 2786-2788]Part B.9 – Compliance[sections 2789-2790]**PART A - CONTINUING EDUCATION REQUIREMENTS FOR INVESTMENT DEALER MEMBERS' APPROVED PERSONS****2702. Definitions**

- (1) The following terms have the meaning set out below when used in sections 2703 through ~~2799~~2759:

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

PART A.1 - THE INVESTMENT DEALER MEMBER CONTINUING EDUCATION PROGRAM AND CONTINUING EDUCATION REQUIREMENTS**2703. The Investment Dealer Member continuing education program**

- (1) The Investment Dealer Member continuing education program consists of two parts:
- (i) a compliance course requirement, which is training covering ethical issues, regulatory developments and rules governing investment dealer conduct, and
 - (ii) a professional development course requirement, which is training that fosters learning and development in areas relevant to investment dealer business.
- (2) The Investment Dealer Member continuing education program operates in two year cycles. The first two year cycle commenced on January 1, 2018. The beginning and end of each

Investment Dealer Member continuing education program cycle is the same for all Investment Dealer Member continuing education participants.

- (3) ~~A~~An Investment Dealer Member or external course provider may provide an Investment Dealer Member continuing education course.
- ~~(4)~~ An Investment Dealer Member or external course provider may ~~provide a continuing education course~~.
- ~~(4)~~ ~~A~~submit Investment Dealer Member or external course provider may submit continuing education courses for accreditation through the Corporation's accreditation process.
- (5) ~~A~~An Investment Dealer Member continuing education participant is exempt from the professional development course requirement if he or she:
- (i) is approved in the category of an Investment Dealer Member's Registered Representative, Associate Portfolio Manager, Portfolio Manager or Supervisor, and
 - (ii) has been continuously approved in a retail trading capacity since January 1, 1990 or earlier by either the Corporation, the Toronto Stock Exchange, the Montreal Exchange, or the TSX Venture Exchange including any of their predecessors.
- (6) ~~A~~An Investment Dealer Member continuing education participant cannot receive continuing education credits for the same Investment Dealer Member continuing education course unless the course has been updated to contain new course content, with the exception of Corporation accredited ethics courses referred to in subsection 2715(3).

2704. Continuing Investment Dealer Member continuing education requirements

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

<u>Investment Dealer Member's</u> Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Registered Representative	retail client	Yes	Yes
Registered Representative	institutional client	Yes	No
Investment Representative	retail client or institutional client	Yes	No
Portfolio Manager	retail client or institutional client	Yes	Yes
Associate Portfolio Manager	retail client or institutional client	Yes	Yes
Trader	N/A	Yes	No

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

<u>Investment Dealer Member's</u> Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
<u>advertisements</u> , sales ~~literature~~ <u>communications</u> and ~~correspondence~~ <u>client</u> <u>communications</u>			
Supervisor ~~designated to be~~ responsible for the supervision of research reports	N/A	Yes	No
Ultimate Designated Person	N/A	Yes	No
Chief Compliance Officer	N/A	Yes	No

- (2) *Registered Representatives* dealing in mutual funds only who are an employee of a firm registered as both an investment dealer and a mutual fund dealer:
- (i) are not subject to and do not need to comply with the *Registered Representative* continuing education requirements set out in subsection 2704(1), and
 - (iii) are subject to and must comply with the continuing education requirements for individuals registered as a ~~dealing representative set out in Mutual Fund Dealer~~ Member's Registered Representative set out in Part B of this Rule 2700.
- (3) ~~A~~An Investment Dealer Member continuing education participant registered in more than one Approved Person category must meet the continuing education requirements of the category with the most onerous continuing education requirements.
- (4) All Investment Dealer Member continuing education participants must complete at least 10 hours of compliance courses in each Investment Dealer Member continuing education program cycle in accordance with requirements in section 2715.
- (5) ~~A~~An Investment Dealer Member continuing education participant that is subject to professional development requirements must complete at least 20 hours of professional development courses in each Investment Dealer Member continuing education program cycle in accordance with requirements in section 2716.

2705. – 2714. Reserved.

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

2715. The compliance course

- (1) ~~A~~An Investment Dealer Member continuing education participant:
- (i) cannot carry forward compliance course credits to satisfy continuing education requirements of a subsequent Investment Dealer Member continuing education program cycle,

- (ii) may receive continuing education credit for a compliance course with an examination, only if the Investment Dealer Member continuing education participant successfully passes the examination, and
 - (iii) may receive continuing education credit of a maximum of five hours for compliance Investment Dealer Member continuing education courses offered by a foreign securities dealer or foreign external course provider.
- (2) ~~A~~An Investment Dealer Member may give continuing education credit for Investment Dealer Member compliance manual training where:
- (i) the content of the compliance manual training satisfies clause 2703(1)(i), and
 - (ii) the compliance manual training is delivered by the Investment Dealer Member through in-person seminars, or webinars that are accompanied by a method of evaluation.
- (3) The Corporation will accredit ethics courses that ~~a~~an Investment Dealer Member continuing education participant can repeat and count towards fulfillment of the compliance course requirement in two Investment Dealer Member continuing education program cycles.

2716. The professional development course

- (1) ~~A~~An Investment Dealer Member continuing education participant subject to the professional development requirement:
- (i) may, upon satisfying professional development requirements in the current cycle, carry forward a maximum of 10 hours of a single professional development course of at least 20 hours and completed in the last six months of the current Investment Dealer Member continuing education program cycle to satisfy a portion of his or her professional development course requirement in the following Investment Dealer Member continuing education program cycle,
 - (ii) may receive continuing education credit for successful completion of the Wealth Management Essentials Course, where completed to satisfy the post-approval proficiency requirement for Investment Dealer Member Registered Representatives dealing with retail clients, in the Investment Dealer Member continuing education program cycle in which the course is completed, and
 - (iii) may receive continuing education credit for a professional development course with an examination, only if the Investment Dealer Member continuing education participant successfully passes the examination.

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

- (1) ~~A~~An Investment Dealer Member must:
- (i) verify the Investment Dealer Member continuing education participant's compliance with the requirements at the end of the Investment Dealer Member continuing education program cycle,
 - (ii) keep evidence of ~~a~~an Investment Dealer Member continuing education participant's completion of the Investment Dealer Member continuing education course, which may

be a certificate issued by the course provider, an attendance sheet, or bulk notice of completion,

- (iii) keep Investment Dealer Member continuing education program records, including course related materials, for each Investment Dealer Member continuing education program cycle for a minimum of seven years following the end of the Investment Dealer Member continuing education program cycle,
 - (iv) designate an *individual* responsible for supervising training and approving ~~an~~ Investment Dealer Member continuing education participant's chosen Investment Dealer Member continuing education course,
 - (v) ensure that ~~an~~ Investment Dealer Member continuing education participant's chosen Investment Dealer Member continuing education course satisfies the content criteria described in subsection 2703(1),
 - (vi) where the Investment Dealer Member continuing education course is delivered by the Dealer Member, evaluate ~~an~~ Investment Dealer Member continuing education participant's knowledge and understanding of the course,
 - (vii) ensure that each Investment Dealer Member continuing education participant meets the continuing education requirements during each Investment Dealer Member continuing education program cycle, and
 - (viii) update the continuing education reporting system and notify the Corporation within 10 *business days* after the end of the Investment Dealer Member continuing education program cycle of all Investment Dealer Member continuing education participants that have met their continuing education requirements within the prescribed cycle.
- (2) ~~A~~An Investment Dealer Member may allow ~~an~~ Investment Dealer Member continuing education participant to use the continuing education credits earned through courses or seminars completed at the Investment Dealer Member continuing education participant's former sponsoring Dealer Member. ~~A~~An Investment Dealer Member may accept a statement of completion issued by the Investment Dealer Member continuing education participant's former sponsoring Dealer Member.

2718. – 2724. Reserved.

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

2725. Participation of recently Approved Persons

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

2726. Voluntary participation in the continuing education program

- (1) Voluntary participation in the [Investment Dealer Member](#) continuing education program will extend the validity period of the Canadian Securities Course. This extension is valid until the end of the sixth month of the next [Investment Dealer Member](#) continuing education program cycle.
- (2) The Corporation will publish a list of courses that qualify for voluntary participation in the [Investment Dealer Member](#) continuing education program.
- (3) A former [Investment Dealer Member's](#) Approved Person may voluntarily participate in the [Investment Dealer Member](#) continuing education program by completing a course or courses on the list referred to in subsection 2726(2).
- (4) To extend the validity period, a former [Investment Dealer Member's](#) Approved Person must complete the course or courses on the list referred to in subsection 2726(2) in the [Investment Dealer Member](#) continuing education program cycle in which the Canadian Securities Course expired.
- (5) A former [Investment Dealer Member's](#) Approved Person may voluntarily participate in the [Investment Dealer Member](#) continuing education program to extend the validity of the Canadian Securities Course for only one [Investment Dealer Member](#) continuing education program cycle.

2727. – 2734. Reserved.

PART [DA.4](#) - CHANGES DURING AN [INVESTMENT DEALER MEMBER'S](#) CONTINUING EDUCATION PROGRAM CYCLE

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

- (1) ~~A~~An [Investment Dealer Member](#) continuing education participant who changes his or her Approved Person category during ~~a~~an [Investment Dealer Member](#) continuing education program cycle must complete the continuing education requirements applicable to the new [Investment Dealer Member's](#) Approved Person category in the same [Investment Dealer Member](#) continuing education program cycle.
- (2) Notwithstanding subsection 2735(1), ~~a~~an [Investment Dealer Member](#) continuing education participant who changes his or her [Investment Dealer Member's](#) Approved Person category during the last six months of the current [Investment Dealer Member](#) continuing education program cycle, becomes subject to the applicable continuing education requirements of the new [Investment Dealer Member's](#) Approved Person category at the beginning of the next [Investment Dealer Member](#) continuing education program cycle.
- (3) ~~A~~An [Investment Dealer Member](#) continuing education participant may not change to an Approved Person category with less onerous continuing education requirements to avoid completing the more onerous continuing education requirements of a former [Investment Dealer Member's](#) Approved Person category, or penalties for non-completion of continuing education requirements. Any change to the Approved Person category during the last six months of the [Investment Dealer Member](#) continuing education program cycle which results in less onerous continuing education requirements must be accompanied by an

explanation from the sponsoring *Dealer Member* to satisfy the *Corporation* that the category change is not an avoidance measure.

2736. – 2744. Reserved.

PART **E.A.5** – DISCRETIONARY RELIEF

2745. Discretionary Relief

- (1) The *Corporation* may extend the time ~~a~~an *Investment Dealer Member* continuing education participant has to complete any *Investment Dealer Member* continuing education course beyond the two year *Investment Dealer Member* continuing education program cycle due to, but not limited to, an illness if:
 - (i) an *Executive* at the *Investment Dealer Member* continuing education participant's sponsoring *Dealer Member*:
 - (a) approves the extension,
 - (b) notifies the *Corporation* of the reason for the extension, and
 - (c) proposes the new date of completion of the required course,
 and
 - (ii) the *Corporation* approves the request for an extension.
- (2) In the case of an indefinite leave of absence, the *Corporation* may exempt from the *Investment Dealer Member* continuing education program ~~a~~an *Investment Dealer Member* continuing education participant who is unable to complete his or her continuing education requirements due to, but not limited to an illness, for more than one *Investment Dealer Member* continuing education program cycle if:
 - (i) an *Executive* at the *Investment Dealer Member* continuing education participant's sponsoring *Dealer Member*:
 - (a) approves the exemption,
 - (b) notifies the *Corporation* of the reason for the exemption, and
 - (c) states that the leave is for an indefinite period,
 and
 - (ii) the *Corporation* approves the request for an exemption.
- (3) ~~A~~An *Investment Dealer Member* continuing education participant who is granted an exemption under subsection 2745(2) and returns to the industry after an absence of:
 - (i) three years or less must have the *Corporation* determine the continuing education requirements before he or she resumes any activity that needs approval, or
 - (ii) more than three years must meet the applicable proficiency and registration requirements for his or her *Investment Dealer Member's* *Approved Person* category.

2746. – 2754. Reserved.

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

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

- (1) On the last *business day* of the first month of an Investment Dealer Member continuing education program cycle, the *Corporation* will automatically suspend the approval of the Investment Dealer Member continuing education participant if:
 - (i) an Investment Dealer Member continuing education participant fails to complete the continuing education requirements for the previous Investment Dealer Member continuing education program cycle within the prescribed cycle, or
 - (ii) the sponsoring *Dealer Member* fails to update the continuing education reporting system and notify the *Corporation* as required by clause 2717(1)(vii).
- (2) A sponsoring *Dealer Member* that fails to comply with the requirements of clause 2717(1)(vii) will be liable for and pay the *Corporation* such fees as the *Board* may prescribe from time to time.
- (3) The *Corporation* may reinstate the Investment Dealer Member continuing education participant's approval after the sponsoring *Dealer Member* has notified the *Corporation* in writing that the Investment Dealer Member continuing education participant has completed the continuing education requirements.
- (4) If a sponsoring *Dealer Member* pays a fine in error, the *Corporation* will issue a refund provided the *Dealer Member* requests a refund within 120 days of the date the invoice is issued by the *Corporation*.

2756. – 2760. Reserved.

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

2761. Definitions

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

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

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

2762. Mutual Fund Dealer Member continuing education

- (1) Compliance with Mutual Fund Dealer Member continuing education Requirements.** Each Mutual Fund Dealer Member and each Mutual Fund Dealer Member’s Approved Person shall comply with continuing education requirements applicable to them, as set out under part B of Rule 2700.
- (2) Registered Representative.** For each cycle, every Approved Person who is approved as a Mutual Fund Dealer Member’s Registered Representative under Rule 2600 must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.
- (3) Chief Compliance Officer, Ultimate Designated Person and Supervisor.** Where an Approved Person is not approved as a Mutual Fund Dealer Member’s Registered Representative, but is approved as either a Chief Compliance Officer or Ultimate Designated Person, or Supervisor under the Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 Compliance Credits, in accordance with requirements under Part B of Rule 2700.
- (4) Continuing education requirements for a Partial Cycle.**
 - (i) Non-Application.** A Mutual Fund Dealer Member’s Approved Person is not required to meet requirements specified under subsections 2762(2) or 2762(3) where, in any given cycle, the Mutual Fund Dealer Member’s Approved Person is subject to that component requirement for a period that is less than, or equal to, 2 months.
 - (ii) Pro-ration of Credits.** Where a Mutual Fund Dealer Member’s Approved Person is subject to a requirement specified under subsections 2762(2) or 2762(3) for less than a full cycle, and the period in question is greater than 2 months, the Mutual Fund Dealer Member’s Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Part B of Rule 2700.
- (5) Leaves of Absence.** Where a Mutual Fund Dealer Member’s Approved Person is subject to the requirements under subsections 2762(2) or 2762(3), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the Chief Compliance Officer can reduce the requirements applicable to that Approved Person under

subsections 2762(2) or 2762(3), in accordance with the applicable provisions under Part B of Rule 2700.

- (6) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under Part B of Rule 2700.
- (7) **Evidence of Completion.** Each Mutual Fund Dealer Member and each Mutual Fund Dealer Member's Approved Person noted in subsections 2762(2) or 2762(3) must maintain evidence of completion of MFDM CE credits for a cycle, as required under Part B of this Rule 2700, for a 24-month period following the end of that cycle.
- (8) **Reporting.** Mutual Fund Dealer Member and each Mutual Fund Dealer Member's Approved Person noted in subsections 2762(2) or 2762(3) must meet the minimum requirements set out under Part B of this Rule 2700 respecting notification to the Corporation of the completion of MFDM CE credits.
- (9) **Non-compliance.**
 - (i) Where, for any given cycle, a Mutual Fund Dealer Member's Approved Person does not meet the requirements of the Mutual Fund Dealer Member continuing education program, that individual shall cease to act as an Approved Person of any Mutual Fund Dealer Member, until such time as the Corporation has determined that the prescribed requirements have been met.
 - (ii) Each Mutual Fund Dealer Member shall be liable for and pay to the Corporation fees, levies, or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Mutual Fund Dealer Member or a Mutual Fund Dealer Member's Approved Person to comply with the requirements of Part B of this Rule 2700.

PART B.1 - PRORATION OF CREDITS

2763. New Participants

- (1) Requirements under subsections 2762(2) or 2762(3) do not apply to a Participant where their initial date of participation falls within the 23rd or 24th month of the cycle.
- (2) A Participant, who is in their first cycle, must satisfy the requirements for each component specified under subsections 2762(2) or 2762(3) on a pro-rata basis, where their initial date of participation falls within months 1 to 22 of that cycle. A pro-rata calculation made under this section must use the following formula:

$$\text{Total Number of Component Credits Required} = A \times B/24$$

where

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

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

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

2764. Returning Participants

- (1) A returning *Participant* who has been previously approved as a *Mutual Fund Dealer's Registered Representative, Chief Compliance Officer, Ultimate Designated Person, or as a Supervisor*:
- (i) must, within 10 business days of returning as a *Participant*, satisfy their outstanding MFDM CE credits, if any, from the immediately preceding cycle;
 - (ii) is not required to satisfy the requirements under subsections 2762(2) or 2762(3) in the current cycle, if, as a returning *Participant*, their *date of participation* falls within the 23rd or 24th month of the cycle;
 - (iii) must satisfy, on a pro-rata basis, the requirements for each component under subsections 2762(2) or 2762(3) for the current cycle, using the formula set out in subsection 2763(2) above, provided that their *date of participation* falls within months 1 to 22 of the current cycle.

2765. Change in Participation

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

$$\text{Total Number of Component Credits Required} = A \times C/24$$

where

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

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

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

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

PART B.2 – LEAVES OF ABSENCE**2766. Leaves**

- (1) Subsection 2762(5) permits a *Mutual Fund Dealer Member* to reduce the *MFDM CE credit* requirements applicable to a *Participant* under subsections 2762(2) or 2762(3) in circumstances where the *Participant* was absent, for a period of at least 4 consecutive weeks, from their employment as a *Mutual Fund Dealer Member's Approved Person* due to:
- (i) Pregnancy or parental leave;
 - (ii) Personal emergency leave;
 - (iii) Family caregiver or medical leave;
 - (iv) Personal illness or injury;
 - (v) Mandatory duty as a juror or witness; or
 - (vi) Other similar leaves of absence defined under applicable provincial laws.
- (2) In order to reduce the number of *MFDM CE credit* requirements, the *Chief Compliance Officer*, or their delegate, must:
- (i) approve the reduction in the number of *MFDM CE credits*;
 - (ii) maintain sufficient evidence and documentation to support their decision, including the following:
 - (a) how the calculation of the reduction in the number of *MFDM CE credits* was determined;
 - (b) the nature of the absence; and
 - (iii) notify the *Corporation* of the reduction in the number of *MFDM CE credits* by filing a credit reduction report with the *Corporation* no later than 10 days following the end of each cycle in which the consideration was applicable.

2767. Reduction

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

PART B.3 - COMPONENT CONTENT**2768. Introduction**

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

2769. Business Conduct

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

- (2) A single Business Conduct Credit consists of 1 hour of training in at least one of the following topic areas:
 - (i) Ethics;
 - (ii) Rules and the *Mutual Fund Dealer Member's* policies and procedures for complying with the *Rules*; and
 - (iii) Relevant legislation and its application.
- (3) For each cycle where a *Participant* is required to obtain at least 8 Business Conduct Credits, a minimum of 1 and maximum of 2 such credits must be content relating to ethics.
- (4) Ethics related content refers to content that examines ethical principles and moral or ethical problems that may arise in performing duties on behalf of a *Mutual Fund Dealer Member*, including the principles under section 1402 It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.
- (5) Other business conduct topics include, but are not limited to:
 - (i) Conflicts of interests;
 - (ii) Personal financial dealings;
 - (iii) Regulatory requirements and initiatives that affect *Mutual Fund Dealer Member* operations;
 - (iv) Disclosure of information to clients;
 - (v) Documentation standards;
 - (vi) Know-Your-Client;
 - (vii) Suitability and new products;
 - (viii) Know-Your-Product;
 - (ix) Anti-money laundering laws and regulations and related Member policies and procedures;
 - (x) Security and privacy of information; and
 - (xi) Complaint handling.

2770. Professional Development

- (1) Professional Development content is educational material that maintains or enhances a *Participant's* financial knowledge or proficiency.
- (2) A single Professional Development Credit consists of 1 hour of training in at least one of the following topic areas:
 - (i) Products;
 - (ii) Financial planning;
 - (iii) Retirement planning;
 - (iv) Investment strategies and asset allocation;
 - (v) Client management techniques;

(vi) Economics, Accounting, and Finance;

(vii) Tax planning;

(viii) Estate planning; and

(ix) Insurance.

2771. Compliance

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

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

PART B.4 - DELIVERY STANDARD

2772. Providers

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

2773. Activity requirements

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

PART B.5 - ACCREDITATION

2774. CERTS eligibility

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

2775. Accreditors

(1) Accreditation can be completed by:

(i) A *Mutual Fund Dealer Member*;

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

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

(iv) the *Corporation*.

2776. Accreditation criteria

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

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

(ii) The content of the activity is consistent with the stated learning objectives and training plan; the resources and materials provided to *Participants* support the stated

learning objectives and are consistent with its content at the time of accreditation approval; and whether the activity has met its learning objectives;

- (iii) The content of the activity meets the related minimum standards set out under Part B.3 of this Rule 2700;
- (iv) The activity includes an adequate written plan for how it will be delivered;
- (v) The activity is relevant to the *Participant* and/or the *Mutual Fund Dealer Member's* business;
- (vi) The activity includes adequate details as to how attendance will be confirmed, and how completion of the activity by individual *Participants* will be recorded;
- (vii) The qualifications and experience of the trainer and *Provider* are adequate;
- (viii) Only one *MFDM CE credit* is assigned per one hour of training;
- (ix) The activity has a minimum of 0.5 *MFDM CE credits* (30 minutes) of accredited content with credits rounded to the nearest quarter (0.25) credit (15 minutes); and
- (x) The activity is not a preparatory course, study guide or unstructured pre-reading.

2777. Self-accreditation

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

2778. Eligibility period

- (1) Each accredited activity recognized by the *Corporation* will be assigned an eligibility period not longer than 2 years from the date of accreditation.
- (2) When the eligibility period expires or there is a material change to the activity that a *Mutual Fund Dealer Member* provides and the *Mutual Fund Dealer Member* intends to continue to offer the activity, the *Mutual Fund Dealer Member* must either re-perform self-accreditation or obtain accreditation from accreditors recognized by the *Corporation*.
- (3) A material change, for the purposes of subsection 2778(2), will have occurred when one or more of the continuing education components or content is no longer covered, the duration of the activity has changed, or testing of the activity has been removed. A material change may also occur when the format, delivery method or content has changed.

PART B.6 - EVIDENCE OF COMPLETION

2779. Documentation issued by the Provider

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

2780. Exception to maintain evidence of completion

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

- (i) facilitates the delivery of accredited content, which meets the requirements under Part B of this current Rule 2700;
- (ii) maintains records related to the completion of MFDM CE credits by Participants; and
- (iii) submits such records to the Corporation on behalf of such Participants, in accordance with the requirements Part B of this current Rule 2700.

PART B.7 - REPORTING

2781. CERTS

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

2782. Cycle

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

2783. Carry forward

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

2784. Responsibility

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

2785. Participant ceases to be an Approved Person

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

PART B.8 - ASSESSMENTS

2786. Review

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

2787. Notification

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

2788. Rejection

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

PART B.9 - NON-COMPLIANCE**2789. Notification and Fees**

- (1) Where, for any given cycle, the Corporation's records indicate that a Participant has not met the requirements as prescribed under Part B of this current Rule 2700, the Corporation shall notify the Participant's sponsoring Dealer Member of the non-compliance determination no later than 30 days from:
- (i) the end of the cycle,
 - (ii) for a returning Participant, upon failure to satisfy any outstanding credits from the immediately preceding cycle, or
 - (iii) at the completion of an assessment of the records maintained by a Participant or Dealer Member where a rejection by the Corporation of reported MFDM CE credits has resulted in non-compliance for a Participant.
- (2) Where a Dealer Member has been notified of such non-compliance pursuant to subsection 2789(1), the Dealer Member shall have 15 days to submit a response for each non-compliance notification detailing a plan for each Participant to become compliant with the requirements under Part B of this current Rule 2700.
- (3) Where, after receiving and reviewing the Dealer Member's response, the Corporation has determined that a Participant has not met the prescribed MFDM CE credit requirements for a given cycle, and the Corporation is not satisfied with the Dealer Member's response, the Corporation shall provide notification to the Participant's sponsoring Dealer Member indicating that the Participant is not to act as an Approved Person of any Mutual Fund Dealer Member until such time as the Corporation has determined that the prescribed MFDM CE credit requirements have been met.
- (4) Where a Dealer Member has been notified pursuant to subsection 2789(3), the Dealer Member shall:
- (i) immediately provide appropriate notification of this matter to the applicable Participant, and
 - (ii) promptly take all steps necessary to ensure that all impacted clients continue to receive service in accordance with requirements under the Rules.
- (5) Where the Corporation has determined that a Participant has not met the prescribed MFDM CE credit requirements for any given cycle, as prescribed under Part B of this current Rule

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

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

2790. Reinstatement

- (1) Where the Corporation has provided notification to a Participant's sponsoring Dealer Member pursuant to subsection 2789(3), the Dealer Member and Participant may file MFDM CE credit reports for that applicable cycle for review by the Corporation.
- (2) Where the Corporation subsequently determines that the Participant has met the prescribed MFDM CE credit requirements for that applicable cycle, notification will be delivered to the Participant's sponsoring Dealer Member stating that the Participant is in compliance with the requirements under Part B of this current Rule 2700.

2791. – 2799. Reserved.

[...]

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

3701. Introduction

- (1) ~~A Dealer Member must report complaints, internal investigations and other matters to the Corporation as required in Rule 3700.~~
- (2) ~~A Dealer Member must investigate allegations of misconduct as required in Rule 3700.~~
- (3) ~~A Dealer Member must handle all client complaints as required in Rule 3700.~~
- (4) Rule 3700 sets out Dealer Members', Approved Persons' and employees' reporting, internal investigation and complaint handling and investigation requirements. Rule 3700 is divided into the following parts:
 - Part A – Reporting requirements
[sections ~~3702~~3710 through ~~3704~~3712]
 - Part B – Internal investigations and internal discipline
[sections ~~3706~~3720 through ~~3708~~3723]
 - Part C – ~~Settlement agreements~~Settlements and Confidentiality Restrictions
[sections ~~3710~~3730 and ~~3711~~3731]
 - Part D – Client complaints – Institutional Clients
[section ~~3715~~3740]
 - Part E – Client complaints – Retail Clients
[sections ~~3720~~3750 through ~~3728~~3759]
 - Part F – Legal actions
[section ~~3780~~3760]
 - Part G – ~~Record~~Specific record retention requirements for client complaints
[~~sections 3785 and 3786~~section 3770]

3702. Definitions

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

<u>“compensation”</u> <u>(indemnité)</u>	<u>Any payment of money, securities, or adjustments to a securities transaction (whether the transaction has a realized or unrealized loss) intended to compensate a client or offset an action by a Dealer Member or Approved Person, excluding corrections to a client account or position due to good faith trading errors and omissions.</u>
<u>“complaint”</u> <u>(plainte)</u>	<u>An expression of dissatisfaction from a client, a former client or any person who is acting on behalf of a client, for which a final response is expected in respect of:</u> <u>(i) a current or former Dealer Member, Approved Person or employee, or</u> <u>(ii) a service or product offered by a Dealer Member.</u>

<u>“cybersecurity incident”</u> (<u>incident de cybersécurité</u>)	Any act to gain unauthorized access to, disrupt, or misuse a <i>Dealer Member’s</i> information system, or information stored on such information system, that has resulted in, or has a reasonable likelihood of resulting in: (i) <u>substantial harm to any person,</u> (ii) <u>a material impact on any part of the normal operations of the <i>Dealer Member</i>,</u> (iii) <u>invoking the <i>Dealer Member’s</i> business continuity plan or disaster recovery plan, or</u> (iv) <u>the <i>Dealer Member</i> being required under any applicable laws to provide notice to any government body, securities regulatory authority or other SRO.</u>
<u>“internal dispute resolution service”</u> (<u>service interne de règlement des différends</u>)	An internal dispute resolution service offered by the <i>Dealer Member</i>, or an affiliate of the <i>Dealer Member</i>, to the <i>Dealer Member’s</i> clients, other than the <u>complaint handling service described in section 3752.</u>
<u>“non-reportable complaint”</u> (<u>plainte à signalement facultatif</u>)	A <u>complaint</u> where there is: (i) <u>no material harm (or reasonable risk of material harm) to a client or the capital markets, and no allegations of a breach of Corporation requirements, securities laws or any applicable laws related to the <i>Dealer Member</i> related activities, or</u> (ii) <u>an action taken by a <i>Dealer Member</i> solely to comply with Corporation requirements, securities laws or any applicable laws, including instances where the client might have incurred financial losses, such as a margin call or an action taken to comply with government-imposed sanctions.</u>
<u>“serious client-related misconduct”</u> (<u>grave inconduite à l’égard d’un client</u>)	<u>Any serious misconduct relating to a client’s or former client’s account or to interactions with a client or former client.</u>
<u>“serious misconduct”</u> (<u>grave inconduite</u>)	(i) <u>any activity which creates a reasonable risk of material harm to a client, former client or the capital markets, including, but not limited to, any:</u> (a) <u>theft,</u> (b) <u>fraud,</u> (c) <u>misappropriation or misuse of funds or securities,</u> (d) <u>forgery,</u> (e) <u>money laundering,</u> (f) <u>insider trading,</u> (g) <u>misrepresentation,</u> (h) <u>unauthorized trading, including discretionary trading contrary to sub-section 3221(1),</u> (i) <u>excessive or improper trading,</u> (j) <u>engaging in <i>Dealer Member</i> related activities outside the <i>Dealer Member</i>,</u>

	<u>(k) engaging in activities outside the Dealer Member contrary to section 2554,</u> <u>(l) addressing conflicts of interest in a manner that is contrary to section 3106 or section 3107,</u> <u>(m) engaging in personal financial dealings contrary to section 3110, and</u> <u>(n) material unresolved violations of the suitability determination obligation in Rule 3400,</u> <u>(o) a breach of client confidentiality, or</u> <u>(ii) any other instance of material non-compliance with Corporation requirements, securities laws or any applicable laws that are applicable to the Dealer Member related activities.</u>

3703. – 3709. Reserved.

PART A – REPORTING REQUIREMENTS

37023710. Reporting by ~~an~~ Approved ~~Person~~ **Persons and employees to the Dealer Member**

- (1) An Approved Person must report to the Dealer Member as soon as possible, but no later than within two business days upon becoming aware of any of the following matters ~~within two business days:~~
- (i) ~~if there is~~ a change in the Approved Person's registration information or Form 33-109F4,
 - (ii) ~~if the Approved Person has~~ a reason to believe that ~~he or she has or~~ they may have engaged, or are currently ~~be contravening any Corporation requirements, engaging, in serious misconduct,~~
 - (iii) being the subject of a client complaint, including a non-reportable complaint,
 - (iv) a client complaint alleging serious client-related misconduct by another Approved Person or employee, or
 - (v) if the Approved Person is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the Dealer Member, or concerning matters that occurred while employed by the Dealer Member:
 - (a) charged with, convicted of, pleading guilty or no contest to any criminal offence,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging contravention of any securities laws, or any applicable laws,
 - (c) named as a defendant or respondent in, or is the subject of any proceeding, disciplinary action or investigation alleging contravention of the requirements or policies of any regulatory organization or SRO, professional licensing, credentialling or registration body,
 - (d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or SRO, professional licensing, credentialling or registration body,

- (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (f) outstanding garnishments rendered against the *Approved Person*, or
 - (g) any pending legal actions against the *Approved Person*, including a civil claim or arbitration notice alleging *serious misconduct*.
- ~~(2) — An *Approved Person* must inform the *Dealer Member* of all pending legal actions against the *Approved Person*~~
- (2) A *Dealer Member* must establish and maintain policies and procedures that require an employee report to the *Dealer Member* any of the following matters as soon as possible, but no later than within two *business days* upon becoming aware of any of the following matters:
- (i) a reason to believe that they may have engaged or currently be engaging in *serious misconduct* while engaging in *Dealer Member related activities*.
 - (ii) being the subject of a client complaint alleging *serious client-related misconduct*,
 - (iii) if the *Approved Person* is the subject of a written client complaint alleging *serious client-related misconduct* by an *Approved Person* or another employee, or
 - ~~(iv) — if the *Approved Person* becomes aware of a client complaint, in writing or other form, about another *Approved Person* involving allegations of theft, fraud, misappropriation of funds, securities or other property, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading.~~
 - (iv) if the employee is subject to any of the following in any jurisdiction inside or outside of Canada, while the employee was in the employ of the *Dealer Member* and was engaged in *Dealer Member related activities*:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to *serious misconduct*,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging *serious misconduct*,
 - (c) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory or SRO, professional licensing, credentialing or registration body,
 - (d) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (e) outstanding garnishments rendered against the employee, or
 - (f) any pending legal actions against the employee, including a civil claim or arbitration notice alleging *serious misconduct*.
- (3) A *Dealer Member* must designate an individual or department to receive, and maintain records of, the reports required by ~~subsection 3702(1)~~ subsections 3710(1) and 3710(2).
- (4) The reporting requirement under clauses 3710(1)(v)(b) and (c) and clause 3710(2)(iv)(b) do not include disclosure of an investigation if such disclosure is prohibited by securities

laws, applicable laws, or requirements or policies of any SRO or regulatory, professional licensing, credentialling or registration body.

37033711. Reporting by a Dealer Member to the Corporation

- (1) ~~For purposes of this section 3703, a “cybersecurity incident” includes any act to gain unauthorized access to, disrupt or misuse a Dealer Member’s information system, or information stored on such information system, that has resulted in, or has a reasonable likelihood of resulting in:~~
- ~~(i) substantial harm to any person,~~
 - ~~(ii) a material impact on any part of the normal operations of the Dealer Member,~~
 - ~~(iii) invoking the Dealer Member’s business continuity plan or disaster recovery plan, or~~
 - ~~(iv) the Dealer Member being required under any applicable laws to provide notice to any government body, securities regulatory authority or other self-regulatory organization.~~
- (21) A Dealer Member must report to the Corporation as soon as possible, but no later than within five business days upon becoming aware of any of the following matters, ~~within the time period and using the method prescribed by the Corporation:~~
- (i) ~~all client complaints, against the Dealer Member or any current or former Approved Person, except service complaints. For the purpose of clause 3703(2)(i), a service complaint by a client is one that is related to service issues and is not the subject of any domestic or foreign securities laws~~ a reason to believe that it, or an Approved Person, may have engaged or is currently engaging in serious misconduct,
 - (ii) a reason to believe that an employee may have engaged or is currently engaging in serious misconduct while performing Dealer Member related activities,
 - (iii) the Dealer Member or Approved Person or employee has paid substantial compensation to a client either directly or indirectly, including in furtherance of a settlement,
 - ~~(iiiv) whenever~~ an internal investigation is commenced by the Dealer Member in accordance with section 37063720,
 - ~~(iii) the results of the internal investigation under clause 3703(2)(ii);~~
 - ~~(iv) any time~~ the Dealer Member, or a current or former Approved Person is subject to oneany of the following in any jurisdiction inside or outside of Canada, while ~~in the employ of~~ employed by the Dealer Member or concerning matters that occurred while ~~in the employ of~~ employed by the Dealer Member:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging contravention of any securities laws or applicable laws related to Dealer Member related activities,
 - (c) named as a defendant or respondent in, or is the subject of any proceeding, or disciplinary action alleging contravention of the requirements or policies of any regulatory ~~or self-regulatory~~ organization or SRO, professional licensing, credentialling or registration body,

- (d) ~~denial of, cancellation, suspension or addition of terms and conditions to a~~ registration or license by any regulatory ~~or self-regulatory~~ organization or SRO, professional licensing, credentialling or registration body,
- (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
- (f) outstanding garnishments rendered against the Approved Person, or
- (eg) subject to a civil claim or arbitration notice ~~involving any of the following:~~alleging serious misconduct,
 - (I) ~~any matters related to securities, derivatives or precious metals bullion,~~
 - (II) ~~any matter related to handling of client accounts or dealings with clients,~~
or
 - (III) ~~any matter that is the subject of any legislation, rules, regulations, or policies concerning securities, derivatives or precious metals bullion or financial services of any securities, derivatives or financial services regulatory or self-regulatory organization in any jurisdiction,~~
- ~~(v)~~ the resolution of any matters set out in clause 3703(2)(iv),
- (vi) the Dealer Member' employee is subject to any of the following in any jurisdiction inside or outside of Canada, while performing Dealer Member related activities while employed by the Dealer Member or concerning matters that occurred while employed by the Dealer Member:
 - (a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to serious misconduct,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging serious misconduct, or
 - (c) subject to a civil claim or arbitration notice alleging serious misconduct.
- (~~vi~~vii) any internal disciplinary action that is taken by a Dealer Member against an Approved Person or an employee as a result of:
 - (a) a client complaint ~~within the meaning of clause 3703(2)(i)~~involving allegations of serious misconduct,
 - (b) a ~~securities, derivatives or precious metals bullion-related~~ civil claim or arbitration notice involving allegations of serious misconduct, or
 - (c) an internal investigation, involving allegations of serious misconduct.
 - ~~(d) a Dealer Member initiated disciplinary action imposing suspension, termination, demotion, or trading restrictions on the Approved Person, or~~
 - ~~(e) a Dealer Member initiated disciplinary action not involving any of the matters listed in sub-clauses 3703(1)(vi)(a) through 3703(1)(vi)(c), which results in a monetary penalty:~~
 - ~~(I) over \$5,000 for a single occurrence,~~
 - ~~(II) over \$15,000 in total in a calendar year, or~~
 - ~~(III) imposed three times or more in a calendar year, and~~

- (2) A Dealer Member must report to the Corporation as soon as possible, but no later than within 20 business days upon becoming aware of a complaint involving allegations of:
- (i) serious misconduct against the Dealer Member, or any current or former Approved Person, or
 - (ii) serious client-related misconduct against an employee while employed by the Dealer Member.
- (3) A Dealer Member must report to the Corporation as soon as possible, but no later than within five business days, the resolution of:
- (i) any matter set out in clauses 3711(1)(v) and 3711(vi).
 - (ii) any internal disciplinary action set out in clause 3711(1)(vii), and
 - (iii) any client complaint set out in clause 3711(2).
- (4) A Dealer Member must report to the Corporation as soon as possible, but no later than within 20 business days from the date on which an internal investigation is completed, a detailed description of the internal investigation conducted under section 3720 and its results.

3712. Reporting of Cybersecurity and Privacy Incidents

- (vii1) A Dealer Member must report to the Corporation any cybersecurity incident, ~~in writing,~~:
- (ai) within three calendar days ~~from discovering~~upon becoming aware of a cybersecurity incident, and the report must include the following information:
 - (Ia) a description of the cybersecurity incident,
 - (Hb) the date on which or time period during which the cybersecurity incident occurred and the date ~~it was discovered by~~when the Dealer Member became aware of it,
 - (Hc) a preliminary assessment of the cybersecurity incident, including the risk of harm to any person and/or impact on the operations of the Dealer Member,
 - (IVd) a description of immediate incident response steps the Dealer Member has taken to mitigate the risk of harm to persons and impact on its operations, and
 - (Ve) the name of and contact information for an individual who can answer, on behalf of the Dealer Member, any of the Corporation's follow-up questions about the cybersecurity incident,
 - (bij) within 30 calendar days, unless otherwise agreed by the Corporation, ~~from discovering~~upon becoming aware of a cybersecurity incident, and the report must include the following information:
 - (Ia) a description of the cause of the cybersecurity incident,
 - (Hb) an assessment of the scope of the cybersecurity incident, including the number of persons harmed and the impact on the operations of the Dealer Member,
 - (Hc) details of the steps the Dealer Member took to mitigate the risk of harm to persons and impact on its operations,

- (~~IVd~~) details of the steps the *Dealer Member* took to remediate any harm to any persons, and
- (~~Ve~~) actions the *Dealer Member* has or will take to improve its cybersecurity incident preparedness.

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

~~3704~~**3713.** Failure to report

- (1) Failure to report, ~~as required by~~ within the timelines set out in sections ~~3702 and 3703~~3710 through 3712, may result in the Corporation imposing an administrative fee, or other penalties that are permitted under the Corporation requirements, against the *Dealer Member* or, where applicable, the *Approved Person*.

3714. Method of Reporting

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

~~3705~~3715 - 3719. Reserved.

PART B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE

~~3706~~3720. Requirement to commence an internal investigation

- (1) A *Dealer Member* must conduct an internal investigation, which includes an internal compliance review, if it ~~appears~~becomes aware that the *Dealer Member* or a current or former *Approved Person* while employed by the *Dealer Member* engaged in or appeared to have engaged in serious misconduct.~~any of the following types of activities in any jurisdiction inside or outside of Canada:~~
 - (i) — theft,
 - (ii) — fraud,
 - (iii) — misappropriation of funds, ~~securities or other property~~,
 - (iv) — forgery,
 - (v) — money laundering,
 - (vi) — market manipulation,
 - (vii) — insider trading,
 - (viii) — misrepresentation, or
 - (ix) — unauthorized trading
- (2) — For the purpose of clause 3706(1)(viii), a misrepresentation means:
 - (i) — an untrue statement of facts, 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.
- (2) A Dealer Member must conduct an internal investigation, which includes an internal compliance review, if it becomes aware that a current or former employee, while

performing Dealer Member related activities, engaged in or appeared to have engaged in serious misconduct while employed by the Dealer Member.

~~3707~~3721. Records of an internal investigation

- (1) ~~The~~For each internal investigation conducted in accordance with section 3720, the Dealer Member must maintain records in accordance with Rule 3800, showing the:
 - (i) ~~cause of~~the issues investigated,
 - (ii) the relevant factual findings,
 - (iii) the investigation steps taken, including the documents obtained and the individuals interviewed,
 - (iv) the evidence collected, and
 - (v) the conclusion made and any resulting recommendations and steps taken to resolve the matter.
- ~~(iii)—results,
of each internal investigation in accordance with section 3803.~~

~~3708~~3722. Internal discipline

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

3723. Exception

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

~~3709~~3724 - 3729. Reserved.

PART C – ~~SETTLEMENT AGREEMENTS~~SETTLEMENTS AND CONFIDENTIALITY RESTRICTIONS

~~3710~~3730. Entering into ~~settlement agreements~~settlements

- (1) ~~An Approved Person~~Persons and employees must obtain the Dealer Member's written consent before entering into any ~~settlement agreements~~settlements with a client, regardless of the form of the settlement and regardless of whether the settlement is the result of a client complaint or a finding by the Approved Person or the employee or the Dealer Member.
- (2) A Dealer Member must keep a record of the prior written consent in accordance with section 3803.
- (3) Subsection ~~3710(1)~~3730(1) does not apply to ~~settlement agreements~~settlements entered into by an ~~employee or~~ Approved Person or employee who is authorized by the Dealer Member to negotiate or enter into ~~settlement agreements~~settlements in the normal course of his/her~~their~~ duties and does not arise out of ~~the~~ activities involving the Approved Person or employee.

37113731. Restrictions / Release

- (1) A Dealer Member must not, in a release entered into between a *Dealer Member* and a client ~~may not~~or otherwise, impose confidentiality or similar restrictions aimed at preventing a client from :
- (i) initiating a *complaint* to the *securities regulatory authorities*, *SROs* or other enforcement authorities, ~~or~~
 - (ii) continuing with any pending *complaint* in progress, ~~or~~
 - (iii) participating in any further proceedings by such authorities. or
 - (iv) communicating or sharing information with the securities regulatory authorities, SROs or other enforcement authorities.

37123732. – 37143739. Reserved.

PART D – CLIENT COMPLAINTS – INSTITUTIONAL CLIENTS**37153740. Policies~~Complaint policies~~ and procedures**

- (1) The *Dealer Member's* policies and procedures must specifically address dealing effectively with *institutional client complaints* received.
- (2) The *Dealer Member's* policies and procedures must specifically address the following:
- (i) the *Dealer Member* must acknowledge all written ~~and verbal~~ *institutional client complaints* alleging serious client-related misconduct,
 - (ii) the Dealer Member must acknowledge all verbal institutional client complaints alleging serious client-related misconduct where a preliminary investigation indicates that the allegation may have merit.
 - ~~(iii)~~ (i) the *Dealer Member* must convey the results of its investigation, if any, of a *complaint* to the *institutional client* in due course,
 - ~~(iii)~~ (ii) the *Dealer Member* must ensure that the *Approved Person* and their *Supervisor* is aware of all *institutional client complaints* filed against the *Approved Person*,
 - ~~(iv)~~ (iii) the *Dealer Member* must ensure that all allegations of *serious misconduct* are reported to an appropriate *Executive*, and
 - ~~(v)~~ (iv) *complaints* are to be handled by a *Supervisor* and a copy must be filed with the compliance department/function (or the equivalent) of the *Dealer Member*.
- (3) If the *Dealer Member* determines that the number or severity of *complaints* is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the *Dealer Member* must:
- (i) review its internal policies and procedures,
 - (ii) ascertain the scope and severity of client detriment that might have arisen,
 - (iii) consider whether it is fair and reasonable for the Dealer Member to undertake proactively a redress or remediation exercise, and
 - ~~(iii)~~ (iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

~~3716~~3741. – ~~3719~~3748. Reserved.

PART E – CLIENT COMPLAINTS – RETAIL CLIENTS

~~3720.~~ Retail client complaints

- ~~(1) — A Dealer Member must establish and maintain policies to deal effectively with both:

 - ~~(i) — retail client complaints alleging misconduct, and~~
 - ~~(ii) — retail client complaints that do not allege misconduct.~~~~
- ~~(2) — A Dealer Member must provide a written response to any retail client complaint that is submitted in the form specified in section 3721.~~

~~3721~~3749. Application

- ~~(1) Part E of Rule 3700 applies~~ to retail clients or persons authorized to act on behalf of retail clients.
- ~~(2) Sections 3755 to 3759 apply to complaints submitted by a retail client, or a person authorized to act on behalf of a retail client in the following form:~~
 - ~~(i) a recorded expression of dissatisfaction with a Dealer Member or employee alleging misconduct~~ submitted in writing, or
 - ~~(ii) a verbal expression of dissatisfaction with the Dealer Member or employee alleging misconduct where a preliminary investigation indicates that the allegation may have merit.~~ alleging serious client related misconduct.
- ~~(2) — For the purpose of subsections 3720(1) and 3721(1), alleged misconduct includes, but is not limited to:~~
 - ~~(i) — allegations of breach of confidentiality, theft, fraud, misappropriation or misuse of funds, securities or other property, forgery, unsuitable investments, misrepresentation, or unauthorized trading relating to the client's account,~~
 - ~~(ii) — other inappropriate financial dealings with clients, or~~
 - ~~(iii) — engaging in Dealer Member related activities outside of the Dealer Member.~~
- ~~(3) Any matter which is the subject of a civil action or arbitration is not considered to be a complaint for the purpose of section 3721~~ 3754.

~~3722~~3750. Retail client complaints

- ~~(1) A Dealer Member must document and, in a manner that a reasonable retail client would consider effective, fair and expeditious, respond to each retail client complaint made to the Dealer Member.~~
- ~~(2) A Dealer Member must establish and maintain policies and procedures to deal effectively, fairly and expeditiously with retail client complaints.~~
- ~~(3) A Dealer Member must provide a written response to any retail client complaint:~~
 - ~~(i) submitted in writing, or~~
 - ~~(ii) alleging serious misconduct.~~

3751. Disclosure of complaint handling procedures

- (1) At the time of account opening, a Dealer Member must provide each new retail client with:
 - (i) a written summary of the Dealer Member's complaint-handling procedures, which is clear and can be easily understood by the client, and
 - (ii) a copy of the complaint handling process brochure, approved by the Corporation.
- (2) A Dealer Member must make available on its publicly accessible website a written summary of the Dealer Member's complaint-handling procedures. Where the Dealer Member does not have a website, the Dealer Member must make a written summary of their complaint-handling procedures available, on an ongoing basis, by other means.

3752. Handling client complaints

- (1) Complaints must be handled by supervisory or compliance staff and a copy of the complaint must be filed with the compliance department or function (or the equivalent) of the Dealer Member.
- (2) The Dealer Member must commit adequate resources, including training and support, to supervisory or compliance staff managing complaints and must establish clear roles and responsibility for the management of complaints.
- ~~(23)~~ The Dealer Member must appoint an individual to act as the designated complaints officer. The individual must have the requisite experience and authority to oversee the complaint handling process and to act as a liaison with the Corporation.
- (4) An individual who is the subject of a complaint must not handle the complaint.
- (5) The Dealer Member must provide complaint drafting assistance to any complainant who expresses a need for it.

~~3723~~3753. Complaint policies and procedures

- ~~(1) A Dealer Member's policies and procedures must specifically address dealing effectively, fairly and expeditiously with complaints.~~
- (21) A Dealer Member's policies and procedures must specifically address:
 - (i) procedures for a fair and thorough investigation of complaints,
 - (ii) a process for assessing the merits of complaints with proper considerations of the facts of the case,
 - (iii) the process to be followed in determining what offer should be made to the client, where the complaint is assessed to have merit,
 - (iv) a description of remedial actions which may be appropriate to be taken within ~~the firm,~~
 - ~~(v) a procedure that will ensure that complaints are not dismissed without proper consideration of the facts of each case,~~
 - ~~(vi) a balanced approach to dealing with complaints that objectively considers the interests of the complainant, the Dealer Member, including the employees, Approved Persons or other relevant parties,~~
 - ~~(vii)~~ (vii) a process that ensures that the relevant ~~employees, Approved Persons,~~ employees and their Supervisors are made aware of all complaints filed by their clients,

- (~~viii~~vi) procedures to inform an appropriate *Executive* of any *serious misconduct*, and
 - (~~ix~~vii) procedures to monitor the general nature of the *complaints*.
- (~~3~~2) If a *Dealer Member* determines that the number or severity of *complaints* is significant, or when a *Dealer Member* detects frequent and repetitive *complaints* made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, the *Dealer Member* must:
- (i) review its internal procedures and practices,
 - (ii) ascertain the scope and severity of client detriment that might have arisen,
 - (iii) consider whether it is fair and reasonable for the Dealer Member to undertake proactively a redress or remediation exercise, and
 - (~~iii~~iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3754. Reserved.

~~3724. Client access~~

- (1) ~~At the time of account opening, a Dealer Member must provide each new client with:~~
 - (i) ~~a written summary of the Dealer Member's complaint handling procedures, which is clear and can be easily understood by the client, and~~
 - (ii) ~~a copy of the complaint handling process brochure, approved by the Corporation.~~
- (2) ~~A Dealer Member must make available to its clients, on an ongoing basis, a written summary of the Dealer Member's complaint handling procedures which may be made available either on the Dealer Member's website or by other means.~~

~~3725~~3755. Complaint acknowledgement letter

- (1) The *Dealer Member* must send an acknowledgement letter to the complainant within five *business days* of receipt of a *complaint*.
- (2) The acknowledgement letter in subsection ~~3725~~(~~1~~3755(1)) must be written in plain language and be in a format readily accessible and understandable by the complainant and include the following:
 - (i) the name, job title and ~~full~~ contact information of the *individual* at the *Dealer Member* handling the *complaint*,
 - (ii) a statement indicating that the client should contact the *individual* at the *Dealer Member* handling the *complaint* if he/shethey would like to inquire about the status of the *complaint* or provide the *Dealer Member* with any additional information,
 - (iii) an explanation of the *Dealer Member's* internal *complaint* handling process, including but not limited to the role of the designated *complaints* officer,
 - (iv) a reference to an attached copy of the *Corporation* approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,
 - (v) the 90 ~~days~~day time line to provide a substantive response to complainants, and
 - (vi) a statement informing the client that the *Dealer Member* may request additional information, from time to time, to investigate the *complaint*.

37263756. Response to client complaints

- (1) The *Dealer Member* must send a substantive response letter to each complainant.
- (2) The substantive response letter must be ~~accompanied by a copy of the complaint handling process brochure approved~~written in plain language and be in a format readily accessible and understandable by the ~~Corporation~~complainant.
- (3) The substantive response letter ~~must be presented in a manner that is fair, clear and not misleading to the client, and~~ must include the following information:
 - (i) a summary of the *complaint*,
 - (ii) the result of the *Dealer Member's* investigation,
 - (iii) the *Dealer Member's* final decision on the *complaint*, including an explanation of the factors that led to the decision, ~~and~~
 - (iv) a statement describing to the client the options available if the client is not satisfied with the *Dealer Member's* response, including the availability of:
 - (a) the approved ombudsman service, if a request is made within the period prescribed by the approved ombudsman service,
 - ~~(ab)~~ arbitration,
 - ~~(bc)~~ litigation/civil action, and
 - ~~(c) submitting a complaint to the Corporation,~~
 - ~~(d) the ombudsman service, if a request is made within the period required by the ombudsman,~~
 - (d) any other available options.
 - (v) a statement that the client may submit a complaint to the Corporation for an assessment of whether any disciplinary action is warranted, and
 - ~~(evi)~~ if the Dealer Member offers an internal ombudsman dispute resolution service offered by an affiliate of the Dealer Member, if any to its retail clients, a statement describing the availability of an internal dispute resolution service, with an explanation that:
 - ~~(Ia)~~ the use of the *internal ombudsman dispute resolution service* process is voluntary, and
 - ~~(II) the estimated length of time the process is expected to take based on historical data, and~~
 - (b) the internal dispute resolution service's timeline to provide a letter documenting the Dealer Member's final decision to complainants.
 - ~~(f) any other applicable options.~~
- (4) A *Dealer Member* must ~~respond~~send a substantive response letter to each ~~client~~complainant as soon as possible and not later than 90 days from the date of ~~receipt of~~they received the *complaint* subject to the following:
 - (i) the ~~90 days-day~~ time line must include all internal processes of the *Dealer Member* that are made available to the client, other than the *internal ombudsman process offered by an affiliate of the Dealer Member*dispute resolution service,

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

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

- (i) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*, or
- (ii) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter.

~~3727~~3757. Duty to assist in client complaint resolution

- (1) If an *Approved Person* moves to a different *Dealer Member* after a *complaint* has been made against the *Approved Person*, the *Approved Person* must continue to co-operate with the *Dealer Member* where they were employed or acted as an *agent* until the *complaint* has been resolved.
- (2) *Dealer Members* must co-operate with each other if events relating to a *complaint* took place at more than one *Dealer Member* or if the *Approved Person* is an *employee* or *agent* of another *Dealer Member* that is not involved in the events relating to the *complaint*.

~~3728~~3758. Reserved.

3759. Communication of dispute resolution service options

- (1) If the *Dealer Member* or an *affiliate of a Dealer Member* offers an *internal dispute resolution service*, the *Dealer Member* must clearly indicate in their communications with clients the following:
 - (i) the *internal dispute resolution service* is employed by the *Dealer Member* or an *affiliate of a Dealer Member* and is not an independent dispute resolution service,
 - (ii) a client may submit a *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the *Dealer Member* has not provided the client with a substantive response letter within 90 days as required by subsection 3756(4),
 - (iii) a client may submit their *complaint* to the *approved ombudsman service* without first submitting a *complaint* to the *internal dispute resolution service* if the client is not satisfied with the *Dealer Member's* substantive response letter,
 - (iv) the use of the *internal dispute resolution service* is voluntary,
 - (v) the client is entitled to receive a letter documenting the *Dealer Member's* final decision to each complainant, not later than:

- (a) 90 days from the date the *internal dispute resolution service* received the *complaint*, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the *complaint*; or
- (b) 30 days from the date the *internal dispute resolution service* received the *complaint*, where the *internal dispute resolution service* received the *complaint* after the issuance of the substantive response letter, and
- (vi) that the statutory limitation periods continue to run while an *internal dispute resolution service* reviews a *complaint*, which may impact a client's ability to commence a civil action.
- (2) In referring to its *internal dispute resolution service* or to the persons assigned to its *internal dispute resolution service*, a Dealer Member may not use any misleading terms, including the term "ombudsman" or any other term with a similar meaning, that suggests that the *internal dispute resolution service* is independent of the Dealer Member.
- (3) A Dealer Member must clearly indicate in their communications with clients the following:
 - (i) a client has 180 days after receiving the Dealer Member's substantive response letter referred to in section 3756 to submit their *complaint* to the *approved ombudsman service*, and
 - (ii) the services of the *approved ombudsman service* are provided free of charge.
- (4) A Dealer Member's disclosure of the *approved ombudsman service* must:
 - (i) be at least equally prominent as the Dealer Member's disclosure of the *internal dispute resolution service*.
 - (ii) be clear, transparent and written in plain language, and
 - (iii) include the full contact information of the *approved ombudsman service*.

3729. — 3779. Reserved.

PART F – LEGAL ACTIONS

37803760. Reporting legal actions

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

37813761. – 37843769. Reserved.

PART G – SPECIFIC RECORD RETENTION REQUIREMENTS FOR CLIENT COMPLAINTS

3785. —Matters reported to the Corporation

- ~~(1) — A Dealer Member must maintain, and make available to the Corporation upon request, copies of all documents associated with matters reported to the Corporation under section 3703 for a minimum of seven years from the date of resolution of the matter.~~

3770. Client complaints

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

~~3786. Client complaints~~

- ~~(1) A Dealer Member must keep an up-to-date record of all client complaints and associated documentation relating to the conduct, business and affairs of the Dealer Member, or an employee of the Dealer Member, in a central and readily accessible place for a period of two years from the date of receipt of a client complaint.~~
- ~~(2) For each client complaint file, a Dealer Member must maintain a copy for seven years in a location that is retrievable within a reasonable period of time.~~

3771. Client complaint file

- (1) A Dealer Member must retain the following information in accordance with section ~~3786~~3770 for each client complaint:
- (i) the complainant's name,
 - (ii) the date of the complaint,
 - (iii) the nature of the complaint,
 - (iv) the name of the individual who is subject of the complaint,
 - (v) the ~~securities, derivatives, other property~~investment products or services which are the subject of the complaint,
 - (vi) the materials reviewed ~~in~~and obtained during the investigation,
 - (vii) the name, title and date individuals were interviewed for the investigation, and
 - (viii) the date and conclusion of the decision rendered in connection with the complaint.

~~3787~~3772. – 3799. Reserved.

RULE 3800 | DEALER MEMBER RECORDS RECORDKEEPING AND CLIENT COMMUNICATIONS REPORTING**3801. Introduction**

- (1) Maintaining complete and accurate records ~~is a~~ and reporting to clients in a comprehensive, meaningful and timely manner are fundamental ~~responsibility~~ responsibilities of a Dealer Member. A Dealer Member's records provide an audit trail to support the Dealer Member's supervision of its business and are necessary to prepare regulatory financial reports and to report accurately to clients.

- (2) Rule 3800 is divided into the following parts:

Part A – Recordkeeping requirements

Part A.1 – General recordkeeping requirements

[sections 3803 to 3806]

Part A.2 – Specific records requirements

[sections 3810 to 3819]

Part B – Client reporting

[sections 3850 to 3860]

3802. Definitions

- (1) The following terms have the meaning set out below when used in Rule 3800:

<u>“automatic plan transactions”</u> <i>(opérations dans le cadre d'un plan automatique)</i>	<u>Systematic purchases, dispositions, reinvestments, withdrawals, or other payments in the issuer's investment products carried pursuant to pre-determined criteria set out in an investment automatic plan.</u>
<u>“book cost”</u> <i>(coût comptable)</i>	In the case of: (i) a long <u>security investment product</u> position, the total amount paid for the <u>security investment product</u> , including any <i>transaction charges</i> related to the purchase, adjusted for reinvested distributions, returns of capital and corporate actions, or (ii) a short <u>security investment product</u> position, the total amount received for the <u>security investment product</u> , net of any <i>transaction charges</i> related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate actions.
<u>“connected issuer”</u> <i>(émetteur associé)</i>	The same meaning as ascribed to it in <i>securities laws</i> .
In CIRO Bulletin 24-0288 we propose adding the following new terms and definitions to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
<u>“direct investment fund charge”</u> <i>(frais directs du fonds)</i>	The amount charged to a client if the client buys, holds, sells or switches <i>securities</i> of an investment fund, including any taxes paid on that amount, other than, for greater certainty, an amount included

<u>d'investissement)</u>	in the investment fund's fund expenses.
"fund expenses per security for the day" <u>(frais du fonds par titre le jour donné)</u>	The fund expenses per <i>security</i> of the applicable class or series of <i>securities</i> of the investment fund for the day that the client owned those <i>securities</i>, expressed in dollars, and determined by using the following formula: $A \times B = C$ where: A = the <i>fund expense ratio</i> for the day of the applicable class or series of <i>securities</i> of the investment fund; B = the <i>market value</i> of a <i>security</i> for the day of the applicable class or series of <i>securities</i> of the investment fund; C = the fund expenses per security for the day in dollars for the investment fund class or series of <i>securities</i>; and where: (i) reasonable necessary adjustments to A or B are made to accurately determine C, or (ii) reasonable approximations of any or all of A, B and C are used, subject to subsections ~~3811(5)~~<u>3854(5)</u> and ~~3811(6)~~<u>3854(6)</u>.
"fund expense ratio" <u>(ratio des frais du fonds)</u>	The sum of an investment fund's <i>management expense ratio</i> and <i>trading expense ratio</i> , expressed as a percentage.
"management expense ratio" <u>(ratio des frais de gestion)</u>	The same meaning as in section 1.1 of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> .
"newly-established investment fund" <u>(nouveau fonds d'investissement)</u>	An investment fund that: (i) has yet to file the required management report of fund performance, as defined in section 1.1 of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i>, or (ii) is established less than 12 months before the end of the period covered by the fee/charges report the <i>Dealer Member</i> is required to deliver pursuant to section ~~3811~~<u>3854</u>.
"operating charge" <u>(frais de fonctionnement)</u>	Any amount charged to a client by a <i>Dealer Member</i> in respect of the operation, transfer or termination of a client's account and includes any taxes paid on that amount.
"original cost" <u>(coût d'origine)</u>	In the case of: (i) a long ~~security~~ <u>investment product</u> position, the total amount paid for the ~~security~~ <u>investment product</u>, including any <i>transaction charges</i> related to the purchase, or (ii) a short ~~security~~ <u>investment product</u> position, the total amount received for the ~~security~~ <u>investment product</u>, net of any <i>transaction charges</i> related to the sale.
"outside holdings" <u>(portefeuille externe)</u>	~~The cClient positions for which the Dealer Member is the 'dealer of record'~~ <u>that are neither held at or under the control of the Dealer</u>

	<u>Member:</u> (i) <u>in securities issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under applicable laws and the Dealer Member is the dealer of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager, or</u> (ii) <u>in any other investment product positions on which the Dealer Member receives continuing compensation payments related to the client's ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.</u>
A similar proposal to replace the definition of “outside holding” with the above definition has also been made in CRO Bulletin 24-0288 (in the context of IDPC Rule 3800).	
“<u>position</u> cost” (<u>coût de la position</u>)	For each ~~security~~<u>investment product</u> position in the account and each ~~security~~<u>outside holding</u> position ~~subject to the additional reporting obligation under section 3809:~~ (i) on or after December 31, 2015: (a) either <i>book cost</i> or <i>original cost</i>, determined as at the end of the applicable period, provided that only one cost calculation methodology, either <i>book cost</i> or <i>original cost</i>, is used for all positions, or (b) in the case of ~~security~~<u>investment product</u> positions that are transferred in, either: (I) the amount determined in sub-clause (i)(a) of this definition, or (II) the <i>market value</i> of the ~~security~~<u>investment product</u> position as at the date of transfer, provided that the following notification or a notification that is substantially similar identifies each ~~security~~ position where <i>market value</i> has been used is included in the statement or report: “Market value information has been used to estimate part or all of the [book cost/original cost] of this ~~security~~[specify the investment product] position.” (ii) before December 31, 2015: (a) either <i>book cost</i> or <i>original cost</i>, determined as at the end of the applicable period, provided that only one cost calculation methodology, either <i>book cost</i> or <i>original cost</i>, is used for all positions, or (b) the <i>market value</i> of the ~~security~~<u>investment product</u> position as at December 31, 2015, or an earlier date <u>if reliable information is available</u>, provided that the following

	notification or a notification that is substantially similar identifies each ~~security~~ position where <i>market value</i> has been used is included in the statement or report: “Market value information as at [December 31, 2015 or earlier date] has been used to estimate part or all of the [book cost/original cost] of this ~~security~~<u>[specify the investment product]</u> position.” (iii) where the <i>Dealer Member</i> reasonably believes it cannot determine the <u>position</u> cost in accordance with clause (i) and sub-clause (ii)(b) of this definition, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar: “The [book cost/original cost] of this ~~security~~<u>[specify the investment product]</u> position cannot be determined.”
A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within the above definition has also been made in CIRO Bulletin 24-0288.	
“related issuer” <u>(émetteur relié)</u>	The same meaning as ascribed to it in <i>securities laws</i>.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate with the shown adjustments into DC Rule section 3802:	
“total amount of fund expenses” <u>(montant total des frais du fonds)</u>	The amount, expressed in dollars, determined by adding together the daily fund expenses for each class or series of <i>securities</i> of each investment fund owned by the client for each day that the client owned it during the reporting period, using the following formula to calculate the daily fund expenses: A x B = C where: A = the fund expenses per security for the day of the applicable class or series of <i>securities</i> of the investment fund; B = the number of the applicable class or series of <i>securities</i> of the investment fund owned by the client for that day; C = the daily fund expenses in dollars for a class or series of <i>securities</i> of the investment fund. A reasonable approximation of the total amount of fund expenses may be used, subject to subsections ~~3811(5)~~<u>3854(5)</u> and ~~3811(6)~~<u>3854(6)</u>.
“total percentage return” <u>(taux de rendement total)</u>	The cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.
In CIRO Bulletin 24-0288 we propose adding the following new term and definition to CIRO Rules which, once approved, we will incorporate into DC Rule section 3802:	
“trading expense ratio”	The ratio, expressed as a percentage, of the total commissions and

<u>(ratio des frais d'opérations)</u>	other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 of Part B of Form 81-106F1 <i>Contents of Annual and Interim Management Report of Fund Performance</i> of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> .
"trailing commission" <u>(commission de suivi)</u>	Any payment related to a client's ownership of a security that is part of a continuing series of payments to a Dealer Member <u>or any of its registered individuals</u> by any party.
"transaction charge" <u>(frais liés aux opérations)</u>	Any amount charged to a client by a Dealer Member in respect of a ~~purchase or sale of a security~~ <u>transaction, other than an operating charge</u> , and includes any taxes paid on that amount.

PART A – RECORDKEEPING REQUIREMENTS

PART A.1. - GENERAL RECORDKEEPING REQUIREMENTS

3803. General requirements for record retention periods

- ~~(1) — A Dealer Member must retain copies of all records in a safe location required under Corporation requirements, in durable and accessible form, for a minimum of seven years from the date the record is created unless Corporation requirements or securities laws relating to the specific type of record require a different retention period.~~

~~3804~~3803. General requirementsRequirement to maintain records

- (1) A Dealer Member must maintain current records that:
- (i) properly record its business activities, financial position, financial operating results and client transactions, and
 - (ii) demonstrate the Dealer Member's compliance with securities laws and Corporation requirements.

3804. Minimum mandatory records

- ~~(21)~~ The records required under subsection ~~3804(1)~~3803(1) include, but are not limited to, records that do the following:
- (i) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to the Corporation or the applicable securities regulatory authority,
 - (ii) permit determination of the Dealer Member's capital position,
 - (iii) demonstrate compliance with the Dealer Member's capital and insurance requirements,
 - (iv) demonstrate compliance with internal control procedures,
 - (v) demonstrate compliance with the Dealer Member's policies and procedures,
 - (vi) permit the identification and segregation of client cash, securities, precious metals bullion and other property,
 - (vii) identify all transactions conducted on behalf of the Dealer Member and each of its clients, including the parties to the transaction and the terms of the ~~purchase or sale~~transaction,
 - (viii) provide an audit trail for:

- (a) client instructions, ~~orders and~~, transactions, and required trading authorizations, and
- (b) each trade transmitted or transaction executed for a client or by the *Dealer Member* on its own behalf,
- (ix) permit the generation of account activity reports for clients,
- (x) provide ~~securities, derivatives and precious metals bullion~~investment products pricing as may be required by *securities laws*,
- (xi) document the opening of client accounts, ~~including as well as~~ any agreements with clients and evidence that account related documents required by *Corporation requirements* have been provided to clients,
- (xii) demonstrate compliance with know-your-client, account appropriateness, product due diligence, know-your-product and suitability determination requirements,
- (xiii) demonstrate compliance with complaint handling requirements,
- (xiv) document ~~correspondence with clients~~client communications,
- (xv) document compliance, training, and supervision actions taken by the *Dealer Member*,
- (xvi) demonstrate compliance with conflicts of interest requirements,
- (xvii) document
 - (a) the *Dealer Member's* sales practices, compensation arrangements and incentive practices, and
 - (b) other compensation arrangements and incentive practices from which the *Dealer Member* or its *Approved Persons*, or any *affiliate* or *associate* of that *Dealer Member*, benefit, ~~and~~
- (xviii) demonstrate compliance with misleading communications requirements,
- (xix) demonstrate compliance with the conditions for *temporary holds*, ~~and~~
- (xx) demonstrate determination undertaken to classify a client as a *hedger* and as an *institutional client*, ~~and~~
- (xxi) document each event required to be reported to the *Corporation* under subsections 3711 and 3712,
- (xxii) document an advancement of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in subsection 5112(1), and
- (xxiii) document each internal investigation conducted in accordance with section 3720, including:
 - (a) the issues investigated,
 - (b) the relevant factual findings,
 - (c) the investigation steps taken, including the documents obtained and the individuals interviewed,
 - (d) the evidence collected, and
 - (e) the conclusion made and any resulting recommendations and steps taken to resolve the matter.

3805. Records retention

- (1) A *Dealer Member* must retain copies of all records in a safe location required under *Corporation requirements*, in durable and accessible form, for a minimum of seven years from the date the

record is created unless Corporation requirements or securities laws relating to the specific type of record require a different retention period.

3806. Internal controls and access to records

- (31) A Dealer Member must maintain appropriate internal controls to:
- (i) provide reasonable assurance that its records:
 - (ia) are correct,
 - (ib) provide clear and accurate information, and
 - (ic) remain current.
 - (ii) enable timely access to records, and
 - (iii) provide for suitable back up and recovery of records in the event of a significant business disruption.
- (42) A Dealer Member must make its records available to the Corporation on request, in the manner requested by the Corporation.
- (53) A Dealer Member must provide the Corporation with statistical or other information with respect to the Dealer Member's business that the Corporation may request from time to time, acting reasonably. Such information must be provided as soon as practicable following the Corporation's request.

3807. – 3809. Reserved.

PART A.2. – SPECIFIC RECORDS REQUIREMENTS

38053810. Trade Transaction blotters (records of original entry)

- (1) A Dealer Member must maintain blotters or other records of original entry by itemizing daily, the following:
- (i) all ~~purchases and sales of securities and precious metals bullion~~transactions in investment products,
 - (ii) all receipts and deliveries of ~~securities~~investment products (including certificate numbers) ~~and precious metals bullion,~~ for certificated products).
 - ~~(iii) all transactions in derivatives,~~
 - ~~(iv)~~(iii) all receipts and disbursements of cash, and
 - ~~(v)~~(iv) all other debits and credits.
- (2) The blotters or other records of original entry must contain, at a minimum, the following:
- (i) in the case of ~~trade~~transactions in ~~securities and,~~ precious metals bullion or similar investment products:
 - (a) the description, class and designation of ~~securities and precious metals bullion~~the product,
 - (b) the number, value or amount of ~~securities and precious metals bullion~~the product and the unit and aggregate purchase or sale price (if any),
 - (c) the name or other designation of the person from whom or to whom the ~~securities and precious metals bullion were~~product was purchased or received or sold or delivered,
 - (d) the ~~trade~~transaction dates, and

- (e) the applicable account in which each transaction was effected,
- (ii) in the case of transactions in futures contracts, forward contracts, contracts for difference and similar *derivatives*:
 - (a) the contract underlying interest,
 - (b) the contract quantity bought or sold,
 - (c) if applicable, the quantity of the underlying interest bought or sold,
 - (d) if applicable, the contract delivery date,
 - (e) the price at which the contract was entered into,
 - (f) the transaction dates,
 - (g) the applicable account in which each transaction was effected,
 - (h) if applicable, the name of the ~~derivatives~~product marketplace,
 - (i) if applicable, the name of the dealer, used by the *Dealer Member* as its *agent* to effect the transaction, and
 - (j) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*),
- (iii) in the case of transactions in options contracts, futures contract options and similar *derivatives*:
 - (a) the contract underlying interest,
 - (b) the contract quantity bought or sold,
 - (c) the contract type,
 - (d) the contract premium,
 - (e) the contract exercise or striking price,
 - (f) the contract declaration date,
 - (g) the transaction dates,
 - (h) the applicable account in which each transaction was effected,
 - (i) if applicable:
 - (I) the futures contract that is the subject of the futures contract option,
 - (II) the delivery month and year of the futures contract that is the subject of the futures contract option,
 - (j) if applicable, the name of the ~~derivatives~~product marketplace,
 - (k) if applicable, the name of the dealer used by the *Dealer Member* as its *agent* to effect the transaction, and
 - (l) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*).

38063811. General ledger of accounts

- (1) A *Dealer Member* must maintain a general ledger (or other *records*) with an itemized account detail of all assets, liabilities, income, expense and capital accounts.

38073812. Itemized client ledger accounts

- (1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other transactions of ~~securities, derivatives and precious metals bullion~~investment products for such account and all other debits and credits to such account.

- (2) When a *Dealer Member* receives ~~securities and~~ investment products or other property to margin, *guarantee*, or secure the ~~trades or transactions~~ of a client's account, the ledger must contain, at a minimum, the following:
- (i) a description of the ~~securities, precious metals bullion or~~ investment product or other property received,
 - (ii) the date when received,
 - (iii) the identity of any deposit institution where such ~~securities, precious metals bullion or~~ investment product or other property are *segregated*,
 - (iv) the dates of deposit and withdrawal from such institutions, and
 - (v) the date of return of such ~~securities, precious metals bullion or~~ investment products or other property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.
- (3) When a *Dealer Member* invests the money, proceeds or funds *segregated* for the benefit of its clients, the ledger must contain, at a minimum, the following:
- (i) the date of the transaction,
 - (ii) the identity of the *person* or company through or from whom such ~~securities~~ investment products were purchased,
 - (iii) the amount invested,
 - (iv) a description of the ~~securities~~ investment products invested in,
 - (v) the identity of the deposit institution, other dealer or dealer registered under any *securities laws* where such ~~securities~~ investment products are deposited,
 - (vi) the date of liquidation or other disposition and the money received on such disposition, and
 - (vii) the identity of the *person* or company to or through whom such ~~securities~~ investment products were disposed.

38123813. Secondary or subsidiary records

- (1) A *Dealer Member* must maintain the following ledgers (or other *records*):
- (i) ~~securities~~ investment products in transfer,
 - (ii) dividends and interest received, owed or paid to clients,
 - (iii) ~~securities~~ investment products borrowed and ~~securities~~ loaned,
 - (iv) monies borrowed and monies loaned (together with a *record* of the collateral and any substitutions in such collateral),
 - (v) investment products ~~securities~~ failed to receive and failed to deliver, and
 - (vi) money, ~~securities~~ investment products and other property received to margin, *guarantee* or secure the ~~trades~~ transactions or contracts of clients, and all funds accruing to clients, which must be *segregated* for the benefit of clients under any *applicable laws*.

38133814. Securities, ~~and~~ precious metals bullion and similar investment products records

- (1) A *Dealer Member* must maintain a *record* or a ledger, as of the trade or settlement dates (including positions in *safekeeping*) for each long and short *security*, ~~and~~ precious metals bullion, or similar investment product position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the following:

- (i) the location of all long positions,
- (ii) the offsetting position to all short positions, and
- (iii) the name or designation of the account in which each position is maintained.

38143815. Derivatives record

- (1) A *Dealer Member* must maintain a *record* or ledger, as of the transaction date, for each long and short *derivatives* position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the name or designation of the account in which each position is maintained.
- (3) As part of the *records* required under subsection ~~3812(1)~~3815(1), a *Dealer Member* must maintain a daily *record* that separately identifies the client positions and associated collateral for futures contracts and futures contract options that are subject to the *domestic gross customer margin model*.
- (4) A *Dealer Member* must maintain a client identification record, for accounts subject to the domestic gross customer margin model, that includes the client identification information required by the clearing corporation for porting of client accounts.

38153816. Memoranda of orders, transactions and other instructions

- (1) A *Dealer Member* must maintain an adequate *record* of each order, transaction or other instruction given or received for all ~~purchases and sales of securities and precious metals bullion and transactions in derivatives~~ transactions in investment products, whether executed or unexecuted, showing at a minimum the following:
 - (i) the terms and conditions of the order, transaction or instruction and of any modification or cancellation thereof,
 - (ii) the account to which the order, transaction or instruction relates,
 - (iii) the time of entry of the order, transaction or instruction and, where it is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,
 - (iv) where the order, transaction or instruction relates to an omnibus account, the component accounts within the omnibus account on whose behalf it is to be executed, and the allocation among the component accounts intended on execution,
 - (v) to the extent feasible, the time of execution or cancellation,
 - (vi) the price at which the order, transaction or instruction was executed,
 - (vii) the time of report of execution, ~~and~~
 - (viii) whether the transactions are opening or closing transactions (where required by the marketplace), and
 - (ix) evidence that the client was informed of fees and charges in accordance with section 3218.
- (2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order, transaction or instruction, if it is placed by an *individual* other than:
 - (i) the account holder, or
 - (ii) an individual authorized in writing to direct orders or instructions for the account.

3817. Options and similar derivatives in which the Dealer Member has an interest

- (1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options or similar *derivatives* in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the *security* or other underlying interest and the number of units involved.

3818. Margin call records

- (1) A *Dealer Member* must maintain a *record* of all margin calls whether such calls are made in writing, by telephone or other means of communication.

3819. Account transfer records

- (1) Pursuant to Part B of Rule 4800, a *Dealer Member* must maintain a *record* of all communications concerning account transfers.

3820. — 3834. Reserved— 3849. Reserved.**PART B – CLIENT REPORTING****3850. General information**

- (1) A *Dealer Member* must include in each statement and report sent to the client in compliance with the requirements of Rule 3800, Part B, the following information:
- (i) the type and number of the client account covered by the statement or the report, and the name of the *Approved Person* servicing such account, if applicable,
 - (ii) the period covered by the statement or the report, and
 - (iii) the name, address and contact information of the *Dealer Member*, subject to the applicable disclosure requirements of Rule 2400, Part A for *Dealer Member* arrangements.

~~3808~~3851. Client account statements

- (1) A *Dealer Member* must make available daily account information, similar to the information included in a statement as prescribed under subsection ~~3808~~3851(4), to each *retail client* who at the end of the day has in their account:
- (i) an open futures contract, forward contract, contract for difference or similar *derivative* position, or
 - (ii) an unexpired and unexercised option contract, futures contract option or similar *derivative* position.
- (2) A *Mutual Fund Dealer Member*, that offers margin accounts to clients, or an *Investment Dealer Member* must send a monthly statement to each client who:
- (i) requests to receive a client account statement on a monthly basis, ~~or~~
 - (ii) ~~at the end of~~during the month ~~has~~had in in their account:
 - (a) ~~had~~ a transaction ~~during the month,~~ other than an automatic plan transaction,
 - (b) ~~has experienced~~ a cash or account position modification, other than modifications due to dividend ~~or payments,~~ interest payments or automatic plan transactions, or
 - (iii) as at the end of the month has in their account:
 - (ea) an unexpired and unexercised option contract, futures contract option or similar *derivative* position, or

- (~~db~~) an open futures contract, forward contract, contract for difference or similar derivative position.
- (3) A Dealer Member must send a quarterly statement to each client who, at the end of the quarter has in their account:
- (i) a debit or credit balance, or
 - (ii) one or more ~~securities, derivatives or precious metals bullion~~investment product positions (including ~~securities or precious metals bullion~~positions held in safekeeping or in segregation), ~~in their account~~.
- (4) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:
- (i) the opening and closing cash balance in the account,
 - (ii) all deposits, credits, withdrawals and debits made to the account, since the previous statement date, specifying for each transaction made by the Dealer Member for the client in the account:
 - (~~iii~~a) the ~~closing cash balance in date of~~ the ~~account~~transaction,
 - (~~b~~) the type of the transaction, including whether the transaction was a purchase, sale or transfer,
 - (~~c~~) the name of the investment product,
 - (~~d~~) the number of investment products purchased, sold or transferred,
 - (~~e~~) the price per investment product if the transaction was a purchase or sale, and
 - (~~f~~) the total value of the transaction if it was a purchase or sale.
 - (~~iv~~iii) the ~~description~~name and quantity of each ~~security, derivative and precious metals bullion~~investment product position in the account,
 - (~~v~~iv) for each ~~security, derivative and precious metals bullion~~investment product position in the account:
 - (a) where the *market value* is determinable:
 - (I) the *market value*,
 - (II) the total *market value*, and
 - (III) if applicable, the notification required pursuant to either clause (i)(b) or clause (ii)(b) of the definition of *market value* in subsection 1201(2),
 - (b) where the *market value* is not determinable, the notification required pursuant to either clause (~~ii~~)(~~b~~) (i)(c) or clause (ii)(c) of the definition of *market value* in subsection 1201(2),
 - (~~vi~~v) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:
 - (a) for each ~~security, derivative and precious metals bullion~~investment product position in the account:
 - (i) where the cost is determinable, ~~either the position cost or the total cost~~presented on an average cost per unit, or share basis, or on an aggregate basis, and

- (II) where the position cost is not determinable, the notification required pursuant to clause (iii) of the definition of position cost in subsection 3802(1),

and

- (b) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position* cost information included in the statement, provided that where the individual *position* cost information included in the statement is calculated using:
 - (I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
 - (II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(vii) the total *market value* of all cash, ~~security, derivative and precious metals bullion~~ and investment product positions in the account, ~~and as at the beginning and the end of the reporting period.~~

(viii) where the client is a *retail client* and the statement is a quarterly statement, the total cost of all cash, ~~security, derivative and precious metals bullion~~ and investment product positions in the account, and

(viii) the investment products in the account that are eligible for coverage by:

- (a) the IPF, conform the IPF Coverage Policy and required disclosures under such policy, or
- (b) any other investor protection fund approved or recognized by a Canadian securities regulatory authority, accompanied with the name of the fund and any required disclosures under the securities laws.

- (5) In the case of clients with any ~~security, derivative and precious metals bullion~~ investment products positions which might be subject to a deferred sales charge if they are sold, a notation identifying each position that might be subject to a deferred sales charge.
- (6) In the case of clients with any open futures contracts, forward contracts, contracts for difference or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:
 - (i) the description and quantity of each open contract, and
 - (ii) the price at which each open contract was entered into.
- (7) In the case of clients with any unexpired and unexercised option contracts, futures contract options or similar *derivatives*, the daily and monthly statements must contain, at a minimum, the following:
 - (i) the description and quantity of each unexpired and unexercised contract, and
 - (ii) the exercise or striking price of each unexpired and unexercised contract.
- (8) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating transaction in a futures contract or similar *listed derivative*, the monthly statement must contain, at a minimum, the following:

- (i) the dates of the initial transaction and liquidating trade,
- (ii) the commodity and quantity bought and sold,
- (iii) the futures *marketplace* upon which the contract was traded,
- (iv) the delivery month and year,
- (v) the prices on the initial transaction and on the liquidating trade,
- (vi) the gross profit or loss on the transactions,
- (vii) the commission, and
- (viii) the net profit or loss on the transactions.

~~(9) In the case of transactions involving:~~

- ~~(i) — securities of the Dealer Member, or~~
 - ~~(ii) — securities of a related issuer of the Dealer Member, or~~
 - ~~(iii) — securities of a connected issuer of the Dealer Member, or~~
 - ~~(iv) — securities referenced in clauses 3808(9)(i) through 3808(9)(iii) that are in the course of a distribution to the public, or~~
 - ~~(v) — derivatives whose underlying interest is referenced in clauses 3808(9)(i) through 3808(9)(iv),~~
- ~~the monthly statement must indicate that the transactions involve securities of the Dealer Member, a related issuer of the Dealer Member or a connected issuer of the Dealer Member or a derivative whose underlying interest is a security of the Dealer Member, a related issuer of the Dealer Member or a connected issuer of the Dealer Member, as the case may be.~~

~~(109)~~ If a Dealer Member does not deposit clients' free credit balances in ~~a trust bank account, the~~with an acceptable institution, where permitted under these rules, the notation prescribed under section 4383 must be included in the client statement ~~must include the following notation:~~

~~"Any free credit balances (except for RRSP funds held in trust) represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."~~

~~(1110)~~ In the case of derivatives transactions executed for an *institutional client* under a give-up agreement, the executing Dealer Member shall not be required to send a monthly statement, provided

- (i) the client, executing Dealer Member and Dealer Member responsible to clear and settle the transaction are parties to the give-up agreement
- (ii) the clearing Dealer Member is responsible, under the give-up agreement, for sending a monthly statement to the client, and
- (iii) the executing Dealer Member:
 - (a) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing Dealer Member,
 - (b) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, securities, margin or collateral, and
 - (c) provides the clearing Dealer Member a monthly invoice with details of the give-up

transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

38093852. Report on client positions held outside of the Dealer Member

- (1) A *Dealer Member* must send a quarterly report on *outside holdings* ~~(report to be called “Report on client positions held outside of the Dealer Member”)~~ to each *retail client* who, at the end of the quarter ~~holds outside of the Dealer Member’s control, either in book-based client name or physical client name,~~ has one or more ~~positions:~~ *outside holdings*.
 - ~~(i) in securities issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under applicable laws and the Dealer Member is the dealer of record for the client on the records of the issuer of the security or the records of the issuer’s investment fund manager, and~~
 - ~~(ii) in any other security, derivative or precious metals bullion positions on which the Dealer Member receives continuing compensation payments related to the client’s ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.~~

A similar proposal to subsection 3852(1), above, has also been made in CIRO Bulletin 24-0288 (in the context of IDPC Rule subsection 3809(1)).

- (2) The report must include all of the following information about the client’s *outside holdings* at the end of the period for which the report is made:
 - (i) the name and quantity of each position,
 - (ii) for each position where the market value is:
 - (a) determinable:
 - (I) the *market value*,
 - (II) the total *market value*, and
 - (III) if applicable, the notification required pursuant to clause (i)(b) of the definition of *market value* in subsection 1201(2), and
 - (b) not determinable, the notification required pursuant to clause (i)(c) of the definition of *market value* in subsection 1201(2),
 - (iii) for each position where the position cost is:
 - (a) determinable, ~~either the~~ position cost or the total cost presented on an average cost per unit, or share basis, or on an aggregate basis, and
 - (b) not determinable, the notification required pursuant to clause (iii) of the definition of position cost in subsection 3802(1),
 - (iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual *position cost* information included in the statement, provided that where the individual *position cost* information included in the statement is calculated using:

- (a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
- (b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,
- (v) the total *market value* of all positions as at the beginning and the end of the reporting period,
- (vi) the total position cost of all positions, ~~and,~~
- ~~(vii) the name of the party that holds or controls each position and a description of the way it is held.~~
- (3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each position that might be subject to a deferred sales charge.
- (4) The report must also indicate:
 - (i) the name of the party that holds or controls each *outside holding* position and a description of the way it is held,
 - ~~(ii)~~ that the client's *outside holdings* are not covered by the ~~Canadian Investor Protection Fund~~IPF, and
 - ~~(iii)~~ whether the client's *outside holdings* are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority*, ~~and, if they are, the name of the fund accompanied with the name of the fund and any required disclosures under the securities laws.~~

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

~~3810~~3853. Performance report

- (1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:
 - (i) an account with:
 - (a) a debit or credit balance, or
 - (b) one or more ~~security, derivative or precious metals bullion~~investment products positions (including ~~security or precious metals bullion~~ positions held in *safekeeping* or in *segregation*), or
 - ~~(ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,~~
 and
 - ~~(iii) there is at least one position in the account or at least one *outside holding* for which quarterly reporting pursuant to section 3809 is required,~~ for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 1201(2),
 and

- (iv) the client's account was opened at least 12 months ago.
- (2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:
 - (i) the total combined *market value* of all cash, ~~security, derivative and precious metals bullion and investment products~~ positions:
 - (a) as at ~~July 15, 2015~~ the account opening date or, where the account was opened prior to July 15, 2015 and ~~the~~ no reliable information is available, as at ~~the account opening date~~ July 15, 2015,
 - (b) as at the beginning date of the 12-month reporting period ~~covered by the report~~, and
 - (c) as at the end date of the ~~report~~ reporting period,
 - (ii) the total combined *market value* of all deposits and transfers in of cash, ~~security, derivative and precious metals bullion and investment products~~ positions:
 - (a) in the period from ~~July 15, 2015~~ the account opening date or, where the account was opened prior to July 15, 2015 and ~~the~~ no reliable information is available, ~~the period from the account opening date~~ from July 15, 2015, to the end date of the ~~report~~ reporting period, and
 - (b) in the 12-month reporting period ~~covered by the report~~,
 - (iii) the total combined *market value* of all withdrawals and transfers out of cash, ~~security, derivative and precious metals bullion and investment products~~ positions:
 - (a) ~~In~~ in the period from ~~July 15, 2015~~ the account opening date or, where the account was opened prior to July 15, 2015 and ~~the~~ no reliable information is available, ~~the period from the account opening date~~ from July 15, 2015, to the end date of the ~~report~~ reporting period, and
 - (b) ~~In~~ in the 12-month reporting period ~~covered by the report~~,
 - (iv) the total combined change in *market value* of all cash, ~~security, derivative and precious metals bullion and investment products~~ positions:
 - (a) for the period from ~~July 15, 2015~~ the account opening date or, where the account was opened prior to July 15, 2015 and ~~the~~ no reliable information is available, ~~the period from the account opening date~~ from July 15, 2015, to the end date of the ~~report~~ reporting period determined using the following formula:
 Total *market value* change from account opening = A-B-C+D
Where:
A = Closing market value at the end of the reporting period
 [Sub-clause ~~3810~~ 3853(2)(i)(c)]
-B = Account opening market value at account opening
 [Sub-clause ~~3810~~ 3853(2)(i)(a)]
-C = Deposits ~~deposits~~ and transfers in
 [Sub-clause ~~3810~~ 3853(2)(ii)(a)]
+D = Withdrawals ~~withdrawals~~ and transfers out
 [Sub-clause ~~3810~~ 3853(2)(iii)(a)], and
 - (b) for the 12-month reporting period ~~covered by the report~~, determined using the following formula:

Total 12-month *market value* change = A-B-C+D

Where:

A = ~~Closing~~ *market value at the end of the reporting period*

[Sub-clause ~~38103853~~(2)(i)(c)]

~~-B~~ = ~~Account opening~~ *market value at the start of the reporting period*

[Sub-clause ~~38103853~~(2)(i)(b)]

~~-C~~ = ~~Deposits~~~~deposits~~ and transfers in

[Sub-clause ~~38103853~~(2)(ii)(b)]

~~+D~~ = ~~Withdrawals~~~~withdrawals~~ and transfers out

[Sub-clause ~~38103853~~(2)(iii)(b)],

- (v) the amount of the annualized *total percentage return* calculated net of charges using a money weighted rate of return calculation methodology generally accepted in the *securities* industry for the following periods:
 - (a) the 12-month period covered by the report,
 - (b) the three-year period preceding the end date of the report,
 - (c) the ~~five-year~~~~five-year~~ period preceding the end date of the report,
 - (d) the 10-year period preceding the end date of the report, and
 - (e) the period from ~~July 15, 2015~~~~the account opening date~~, or, where the account was opened prior to July 15, 2015 and ~~the no reliable~~ information is available, ~~the period from the account opening date~~~~July 15, 2015~~ to the end date of the report,

provided that if any portion of a period referred to in sub-clauses ~~38103853~~(2)(v)(b), ~~38103853~~(2)(v)(c) and ~~38103853~~(2)(v)(d) is before July 15, 2015, the *Dealer Member* is not required to report the annualized *total percentage return* for that period, and
- (vi) the definition of *total percentage return* as set out in subsection 3802(1) and a notification indicating the following:
 - (a) the *total percentage return* presented in the performance report was calculated net of fees / charges,
 - (b) the calculation method used, and
 - (c) a general explanation in plain language of what the calculation method takes into account.
- (3) The combined information required to be provided under subsection ~~38103853~~(2) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining:
 - (i) the content of the report and how a client can use the information to assess the performance of the client's investments, and
 - (ii) the changing value of the client's investments as reflected in the information in the report.
- (4) The *Dealer Member* must send a performance report containing the combined information required to be provided under subsection ~~38103853~~(2) to a client every 12 months, except that:
 - (i) the first performance report ~~to the client sent after a Dealer Member opens an for a client,~~ may be sent within 24 months after the Dealer Member carries out a transaction or transfer for that client, and
 - (ii) ~~any performance report sent to a client that covers the 12-month period ending on~~

~~December 31, 2016 is not required to include in the report the information set out in:~~

- ~~(a) sub-clauses 3810(2)(i)(a), 3810(2)(ii)(a), 3810(2)(iii)(a) and 3810(2)(iv)(a) [Prior period comparative account activity information], and~~
- ~~(b) sub-clauses 3810(2)(v)(b) through 3810(2)(v)(e) [Prior period comparative percentage return information], and~~

~~(iii)~~ (ii) where a performance report that covers the 12-month period ending on December 31, 2016 ~~is~~ was sent to the client ~~pursuant to clause 3810(4)(ii)~~, all subsequent performance reports for the 12-month periods ending on December 31, 2017 and each calendar year thereafter may include:

- (a) the information required by sub-clauses ~~3810~~3853(2)(i)(a), ~~3810~~3853(2)(ii)(a), ~~3810~~3853(2)(iii)(a) and ~~3810~~3853(2)(iv)(a) [Prior period comparative account activity information] as at or for the period commencing January 1, 2016, as applicable, and
- (b) the information required by sub-clauses ~~3810~~3853(2)(v)(b) through ~~3810~~3853(2)(v)(e) [Prior period comparative percentage return information] provided that if any portion of a period referred to in sub-clauses ~~3810~~3853(2)(v)(b), ~~3810~~3853(2)(v)(c), and ~~3810~~3853(2)(v)(d), is before January 1, 2016, the *Dealer Member* is not required to report the annualized *total percentage return* for that period.

- (5) ~~For the purposes of this section 3810, the information in respect of cash, security, derivative and precious metals bullion positions of a client required to be reported under section 3808~~The information required under this section 3853 must be provided in a separate report for each of the client's accounts.
- (6) ~~For the purposes of~~The information required under this section ~~3810, the information~~3853 in respect of ~~cash, security, derivative and precious metals bullion positions of a client required to be reported under section 3809~~outside holdings must be included in the report for each of the client's accounts through which these positions were transacted
- (7) Subsections ~~3810~~3853(5) and ~~3810~~3853(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any ~~outside holdings of a client required to be reported under section 3809~~ provided:
 - (i) the client has consented in writing to receiving a consolidated report, and
 - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection ~~3810~~3853(7), must:
 - (i) be prepared for the same 12-month period, and
 - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual fee/charge reports that are sent to the same client.
- (9) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual performance report under this section ~~3810~~3853, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following

information about the client's account in addition to the requirements set out under section ~~3808~~3851:

- (i) the total profit or loss realized on positions exercised, expired or closed during the period covered,
 - (ii) the unrealized profit or loss for each opened position at the end of the period covered,
 - (iii) the profit or loss realized for each positions exercised, expired or closed during the period covered, and
 - (iv) a disclosure explaining to the client that for the period covered, the statement does not provide information on the changes in *market value* that occurred during the period covered, but provides the client with:
 - (a) profit or loss realized on positions exercised, expired or closed, and
 - (b) unrealized profit or loss for opened position at the end of the period covered.
- (10) For purposes of subsection ~~3810~~3853(9), all deposits, credits, withdrawals and debits made in the account can be disclosed as a single net deposit or net withdrawal in the statement.
- (11) If a Dealer Member sends a performance report to the client for a period shorter than 12-months, the Dealer Member must not calculate the disclosed information on an annualized basis.

~~3811~~3854. Fee/charge report

- (1) A Dealer Member must send ~~a~~an annual fee/charge report to each *retail client* who, at the end of the 12-month period covered by the report ~~or a shorter period in the case of the first report delivered after a client has opened an account,~~ has:
- (i) has an account with the Dealer Member, or
 - (ii) holds one or more *outside holdings* ~~for which quarterly reporting pursuant to section 3809 is required,~~
- and
- (iii) ~~paid a fee, charge or other payment, including payments referred to in clauses 3811(2)(viii) and 3811(2)(ix),~~such client paid either directly or indirectly, to the Dealer Member or any of its *registered individuals*, any fee, charge or other payment reportable under subsection 3854(2) during the period covered by the report.

In CISO Bulletin 24-0288, we propose repealing and replacing the IDPC Rule clause 3811(1)(iii) with the following, which, once approved, we will incorporate with the shown adjustments into DC Rule 3800 to replace clause 3854(1)(iii):

- (iii) such client paid either directly or indirectly any fee, charge or other payment, reportable under subsection ~~3811(2)~~3854(2) during the period covered by the report.
- (2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:
- (i) a discussion of the *operating charges* which might be applicable to the client's account,
 - (ii) the total amount of each type of *operating charge* related to the client's account paid by the client during the reporting period ~~covered by the report,~~
 - (iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the reporting period ~~covered by the report,~~
 - (iv) the total amount of each type of *transaction charge* related to ~~the purchase or sale of securities and precious metals bullion and~~ transactions in ~~derivatives~~investment products

paid by the client during the reporting period ~~covered by the report~~,

- (v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the reporting period ~~covered by the report~~,
- (vi) the aggregate total amount of all charges reported under clauses ~~3811~~3854(2)(iii) and ~~3811~~3854(2)(v),
- (vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:
 - (a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,
 - (b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of *debt securities*, the following notification or a notification that is substantially similar:

“For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged.”,
- (viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by ~~a securities or derivatives~~an issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and
- (ix) if the *Dealer Member* received *trailing commissions* related to *securities* owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

“We received \$[amount] in trailing commissions in respect of *securities* you owned during the period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.”

In CRO Bulletin 24-0288 we propose adding the following new provisions to CRO Rules, which, once approved, we will incorporate with the shown adjustment into DC Rule section 3854:

- (x) if the client owned investment fund *securities* during the period covered by the report, the following information about those *securities* for such period:
 - (a) the *total amount of fund expenses* charged to the investment fund by its investment fund manager or any other party, after making the necessary

adjustments to add performance fees and deduct fee waivers, rebates or absorptions, but excluding any charges reported as *transaction charges* under clause ~~3811~~3854(2)(iv),

- (b) the total amount of *direct investment fund charges* charged to the client by the investment fund, investment fund manager or any other party, excluding any charges reported as *transaction charges* under clause ~~3811~~3854(2)(iv),
- (c) the aggregate total amount of all expenses and charges reported under subclauses ~~3811~~3854(2)(x)(a) and ~~3811~~3854(2)(x)(b),
- (d) the aggregate total amount of all *Dealer Member* charges and investment fund expenses and charges reported under clause ~~3811~~3854(2)(vi) and subclause ~~3811~~3854(2)(x)(c),
- (e) the *fund expense ratio* of each class or series of *securities* of each investment fund, including any performance fees and deducting any fee waivers, rebates or absorptions,
- (f) the following disclosures:
 - (I) if information reported under subclauses ~~3811~~3854(2)(x)(a), ~~3811~~3854(2)(x)(b) and ~~3811~~3854(2)(x)(e) is based on an approximation or any other assumption, a notification that this is the case,
 - (II) in relation to any *direct investment fund charges* charged to the client, other than deferred sales charges, a short explanation of the type of fees that were charged,
 - (III) in relation to the *total amount of fund expenses* reported, the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee (which includes trailing commissions paid to us), operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the estimated total dollar amount you paid in fund expenses for all the investment funds you owned last year. This amount depends on each of your funds’ fund expenses and the amount you invested in each fund.”,

- (IV) in relation to *the fund expense ratios* required to be reported under subclause ~~3811~~3854(2)(x)(e), the following notification or a notification that is substantially similar:

“Please refer to the prospectus or fund facts document of each

investment fund for more detailed information about fund expenses and fund performance.

Please refer to your latest account statement for more information about the market value and the number of securities of the investment funds you currently own.”,

- (V) in relation to any deferred sales charges paid by the client, the following notification or a notification that is substantially similar:

“You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge (DSC) option before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund made available at the time of purchase. The redemption fee was deducted from the redemption amount you received.”,

- (VI) in relation to an investment fund or *securities* of an investment fund where the manager of the investment fund is incorporated, continued or organized under the laws of a foreign jurisdiction, and the information reported for those *securities* under subclauses ~~3811~~3854(2)(x)(a), ~~3811~~3854(2)(x)(b) and ~~3811~~3854(2)(x)(e) is based on information disclosed under the laws of a foreign jurisdiction, the following notification or a notification that is substantially similar:

“This report includes information about the fund expenses and fund expense ratio of foreign investment funds. Please note that this information may not be directly comparable to equivalent information for Canadian investment funds, that may include different types of fees.”,

- (VII) in relation to any structured product, labour sponsored investment fund or investment fund the *securities* of which are distributed solely under an exemption from the prospectus requirement in compliance with *securities laws*, the following notification or a notification that is substantially similar:

“Please note that other products you may own or may have owned during the reporting period, such as exempt market investment funds, labour sponsored investment funds or structured products, may have embedded fees that are not reported here. You can contact us for more information.”,

- (xi) if the *Dealer Member* knows or has reason to believe that the client paid, to third parties, custodial fees, intermediary fees or interest charges related to ~~*securities, precious metals bullion and derivatives*~~ *investment products* owned by the client during the period covered by the report and those fees or charges are not required to be reported to the client by the *Dealer Member* under this section, the following notification or a notification that is substantially similar

“The costs in this report may not include any fees you pay directly to third parties, including custodial fees, intermediary fees or interest charges that

may be deducted from your account. You can contact those service providers for more information.”,

- (xii) the following notification or a notification that is substantially similar:

“What can you do with this information? Take action by contacting your advisor to discuss the fees you pay, the impact they have on the long-term performance of your portfolio and the value you receive in return. If you are a self-directed investor, consider how fees impact the long-term performance of your portfolio, and possible ways to reduce those costs.”.

- (3) A *Dealer Member* may exclude the information required under subclauses [38113854\(2\)\(x\)\(a\)](#) and [38113854\(2\)\(x\)\(e\)](#) and any approximations of such information for a newly established investment fund in which case the following notification or a notification that is substantially similar must be included in the report:

“The total amount of fund expenses reported may not include cost information for newly established investment funds.”,

- (4) A *Dealer Member* is not required to report the information under subclauses [38113854\(2\)\(x\)\(a\)](#), [38113854\(2\)\(x\)\(b\)](#), [38113854\(2\)\(x\)\(e\)](#), and any approximations of such information, or the disclosures under paragraphs [38113854\(2\)\(x\)\(f\)\(I\)](#) to [38113854\(2\)\(x\)\(f\)\(V\)](#) and clause [38113854\(2\)\(xi\)](#) with regards to:

- (i) a labour sponsored investment fund, or
- (ii) an investment fund whose *securities* are distributed solely under an exemption from the prospectus requirement in compliance with *securities laws*.

- (5) A *Dealer Member* is permitted to report a reasonable approximation of the information required under subclauses [38113854\(2\)\(x\)\(a\)](#), [38113854\(2\)\(x\)\(b\)](#) and [38113854\(2\)\(x\)\(e\)](#), when relying on reasonable approximations to determine such information pursuant to subsection [38113854\(6\)](#).

- (6) For the purposes of reporting the information under subclauses [38113854\(2\)\(x\)\(a\)](#), [38113854\(2\)\(x\)\(b\)](#) and [38113854\(2\)\(x\)\(e\)](#) and the disclosures under paragraphs [38113854\(2\)\(x\)\(f\)\(I\)](#), [38113854\(2\)\(x\)\(f\)\(II\)](#), [38113854\(2\)\(x\)\(f\)\(V\)](#) and [38113854\(2\)\(x\)\(f\)\(VI\)](#), the *Dealer Member* must:

- (i) rely on the information provided by the investment fund manager, pursuant to section 14.1.1 of National Instrument 31-103, unless the *Dealer Member* reasonably believes the information provided is incomplete or misleading, and
- (ii) where no reliable information can be obtained pursuant to clause [38113854\(6\)\(i\)](#), make reasonable efforts to obtain or determine by other means the required information, or a reasonable approximation of such information, and
- (iii) where it reasonably believes it cannot obtain or determine under clause [38113854\(6\)\(ii\)](#) information that is not misleading, exclude such information and disclose in the relevant statement or report that the information is excluded from calculations or not reported.

- (7) The *Dealer Member* must send a fee/charge report containing the combined information required to be provided under subsection 3854(2) to a client every 12 months, except that the first report sent after a *Dealer Member* opens an account for a client may cover a shorter period.

- (38) ~~For the purposes of this section 3811, the information in respect of security, derivative and precious metals bullion positions of a client required to be reported under section 3808~~The information required under this section 3854, must be provided in a separate report for each of the client's accounts.
- (49) ~~For the purposes of~~The information required under this section ~~3811, the information~~3854 in respect of *outside holdings* ~~of a client required to be reported under section 3809~~ must be included in the report for each of the client's accounts through which these positions were transacted.
- (510) Subsections ~~3811(3) and 3811~~3854(48) and 3854(59) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* ~~of a client required to be reported under section 3809~~ provided:
- (i) the client has consented in writing to receiving a consolidated report, and
 - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (611) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection ~~3811~~3854(510), must:
- (i) be prepared for the same 12-month period, and
 - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual performance reports that are sent to the same client.
- (712) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivatives*, the *Dealer Member* shall not be required to send an annual fee/charge report under this section ~~3811~~3854, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account for the period covered:
- (i) itemized transaction charge and operating charge information in accordance with this section ~~3811~~3854, and
 - (ii) if applicable, itemized information on compensation received by the *Dealer Member* in connection with a transaction.
- (813) For purposes of clause ~~3811~~3854(712)(ii), the following information will be acceptable where the compensation received by the *Dealer Member* relates to a bulk distribution arrangement:
- (i) a calculated product distribution compensation amount, or
 - (ii) where the distribution compensation amount cannot be unbundled from the manufacturer compensation amount,
 - (a) the entire compensation amount, and
 - (b) a note explaining that the amount disclosed is the entire product compensation amount.
- (14) Where for a certain investment product, the Dealer Member reasonably believes that it cannot obtain reliable fee/charge information that is not misleading, the Dealer Member must exclude such information and provide meaningful disclosure in the report of the information excluded.

~~3816.3855.~~ Trade Transaction confirmations

- (1) A *Dealer Member* must promptly send the client a written confirmation of ~~all purchases and sales of securities and precious metals bullion and transactions in derivatives, and copies of notices of~~

~~all other debits and credits of money, securities, transactions in investment products and other property, proceeds of loans and other items~~ for the client's account.

- (2) ~~The written confirmation must contain, at a minimum, the day and the marketplace or marketplaces where the trade took place, or marketplace disclosure language acceptable to the Corporation; the fee or other charge, if any, levied by any securities regulatory authority in connection with the trade; the name of the salesperson, if any, involved in the transaction; the name of the dealer, if any, used by the Dealer Member as its agent to effect the trade, the settlement date of the trade:~~

The written confirmation must contain

(i) at a minimum the following information:

- (a) the name, address and contact of the Dealer Member,
- (b) the type and number of the account through which the transaction was effected,
- (c) whether or not the person or company that executed the transaction acted as principal or agent,
- (d) the name of the Registered Representative and Investment Representative, if any, involved in the transaction,
- (e) the name of the dealer, if any, used by the Dealer Member as its agent to effect the transaction,
- (f) the settlement date of the transaction,
- (g) the date of the transaction, and if the transaction took place on a marketplace, the marketplace or marketplaces where the transaction took place, or marketplace disclosure language acceptable to the Corporation,
- (h) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction,
- (i) the applicable IPF disclosure, in accordance with the IPF Disclosure Policy,

and:

(ii) in the case of trades in securities ~~and~~, precious metals bullion and similar investment products:

- (a) the quantity and description,
- (b) the ~~consideration~~price, and
- ~~(c) whether or not the person or company that executed the trade acted as principal or agent, and~~
- ~~(d)~~ must maintain and make available to the client or the Corporation, upon request, the name of the ~~person~~ or company from or to or through whom the ~~security or precious metals bullion product~~ was bought or sold, if acting as an agent in a trade upon an equity marketplace,

and

(iii) in the case of transactions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar derivatives:

- (a) the contract underlying interest,
- (b) the contract quantity bought or sold,
- (c) if applicable, the quantity of the underlying interest bought or sold,
- (d) the contract delivery date, and
- (e) the price at which the contract was entered into,

and

(iiiiv) in the case of transactions in options contracts, futures contract options and similar *derivatives*:

- (a) the contract underlying interest,
- (b) the contract quantity bought or sold,
- (c) the contract type,
- (d) the contract premium,
- (e) the contract exercise or striking price,
- (f) the contract declaration date,
- (g) if applicable:
 - (I) the futures contract that is the subject of the futures contract option,
 - (II) the date of the futures contract that is the subject of the futures contract option,

and

(ivv) in the case of trades in mortgage-backed *securities*, and subject to the proviso below:

- (a) the original principal amount of the trade,
- (b) the description of the *security* (including interest rate and maturity date),
- (c) the remaining principal amount (RPA) factor,
- (d) the purchase/sale price per \$100 of original principal amount,
- (e) the accrued interest,
- (f) the total settlement amount, and
- (g) the settlement date,

provided that in the case of trades entered into from the first *business day* of the month to the fourth *business day* of the month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in sub-clauses 38163855(2)(ivv)(a), 38163855(2)(ivv)(b), 38163855(2)(ivv)(d) and 38163855(2)(ivv)(g) and indicating that the information in sub-clauses 38163855(2)(ivv)(c), 38163855(2)(ivv)(e) and 38163855(2)(ivv)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the *security* is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required in subsection 38163855(2),

and

~~(v)—in the case of transactions in over-the-counter securities other than debt securities:~~

- ~~(a) where the confirmation is sent to a retail client:

 - ~~(i) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction, and~~~~

- ~~(H) the total amount of all charges in respect of the transaction;~~
- ~~(b) where the confirmation is sent to an institutional client;~~
- ~~(I) the commission, if any, charged in respect of the transaction;~~

and

- (vi) in the case of transactions in *debt securities* or similar investment products:
 - (a) in the case of a purchase, where the ~~debt security~~product is a stripped coupon or a residual debt instrument:
 - (I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and
 - (II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other ~~debt securities~~products which are commonly regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed,
 - (b) in the case of a purchase, where the ~~debt security~~product is neither a stripped coupon nor a residual debt instrument:
 - (I) the yield to maturity calculated in a manner consistent with market conventions for the *security* traded,
 - (II) where the ~~debt security~~product is subject to call prior to maturity through any means, the notation of “callable” must be included, and
 - (III) where the ~~debt security~~product has a variable coupon rate, the notation “The coupon rate may vary.” must be included,
 - (c) where the ~~debt security~~product trade is not a primary market transaction and the ~~trade~~transaction confirmation is being sent to a *retail client*, either of the following:
 - (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction, or
 - (II) the total amount of any commission charged to the client by the *Dealer Member* and, if the *Dealer Member* applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:
 “Dealer firm remuneration has been added to the price of this ~~security~~product (in the case of a purchase) or deducted from the price of this ~~security~~product (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”,

and

- (vii) in the case of transactions in
 - (a) *over-the-counter securities* investment products other than *debt securities* or a *security* that is undergoing a primary market transaction, and *over-the-counter derivatives* other than contracts with non-standardized terms that are customized to the needs of a particular client and for which there is no secondary market, and
 - (b) the confirmation is being sent to a *retail client*,
 either of the following:

- (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,
- (II) one of the following notifications or a notification that is substantially similar:
 - “Dealer firm remuneration has been added to the price of this security product (in the case of a purchase) or deducted from the price of this security product (in the case of a sale).”
 - “Dealer firm remuneration has been included as an adjustment to the price of this derivatives transaction.”,

and

- (viii) in the case of transactions involving:
 - (a) securities investment products of the *Dealer Member*, or
 - (b) securities investment products of a *related issuer* of the *Dealer Member*, or
 - (c) securities investment products of a *connected issuer* of the *Dealer Member*, or
 - (d) securities investment products referenced in sub-clauses 3816.3855(2)(viii)(a) through 3816.3855(2)(viii)(c) that are in the course of a distribution to the public, or
 - (e) derivatives whose underlying interest is referenced in sub-clauses 3816.3855(2)(viii)(a) through 3816.3855(2)(viii)(d),

the trade transaction confirmation must indicate that the transactions involve securities products of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member* or a derivative whose underlying interest is a product of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

and

- ~~(ix) in the case of a *Dealer Member* controlled by or affiliated with a financial institution, the relationship between the *Dealer Member* and the financial institution shall be disclosed on each trade confirmation issued in connection with a trade in securities of a mutual fund sponsored by the financial institution or a corporation controlled by or affiliated with the financial institution, except where the names of the *Dealer Member* and the mutual fund are sufficiently similar to indicate that they are controlled by or affiliated with the same financial institution,~~

and

- (x3) notwithstanding Notwithstanding the provisions of this section 3816.3855, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of:
 - (a) a trade in a *managed account*, provided ~~that~~:
 - (a) prior to the trade, the client has consented in writing to waive the trade transaction confirmation requirement,
 - (b) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,
 - (c) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an exemption from any such *applicable laws* by the responsible *securities regulatory*

authority, and

(~~IVd~~) where:

(~~A~~I) a person other than the Dealer Member manages the account:

(~~i~~A) a ~~trade~~transaction confirmation has been sent to the manager of the account, and

(~~ii~~B) the Dealer Member complies with section ~~3808~~3851, or

(~~B~~II) the Dealer Member manages the account:

(~~i~~A) the account is not charged any commissions or fees based on the volume or value of transactions in the account,

(~~ii~~B) the Dealer Member sends to the client a monthly statement that is in compliance with section ~~3808~~3851 and contains all of the information required to be contained in a confirmation under this section ~~3816~~3855 except:

(~~a~~i) ~~the day and~~ the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the Corporation,

(~~b~~ii) the fee or other charge, ~~if any, levied by any securities regulatory authority~~ in connection with the trade, separately from what is being disclosed in the monthly statement.

(~~c~~iii) the name of the ~~salesperson~~Registered Representative or Investment Representative, if any, in the transaction,

(~~d~~iv) the name of the dealer, if any, used by the Dealer Member as its agent to effect the trade, and

(~~e~~v) ~~must maintain and make available to the client or the Corporation, upon request~~as applicable, the name of the person or company from or to or through whom the security was bought or sold, if acting as an agent in a trade on an equity marketplace.

(~~iii~~C) the Dealer Member maintains the information not required to be in the monthly statement pursuant to sub-paragraph ~~3816~~3855(~~23~~)(~~xi~~)(~~ed~~)(~~IVII~~)(~~B~~)(~~ii~~) and discloses to the client on the monthly statement that such information will be provided to the client on request.

(~~b~~ii) a trade in a delivery against payment or receipt against payment trade account, provided:

(~~t~~a) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *Corporation requirements or securities laws*,

(~~H~~b) the Dealer Member maintains an electronic audit trail of the ~~trade~~ under *Corporation requirements or securities laws*,

(~~H~~c) prior to the trade, the client has agreed in writing to waive receipt of ~~trade~~transaction confirmations from the Dealer Member,

(~~IVd~~) the client is either:

(~~A~~I) another Dealer Member who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753,

4754, 4755 and 4756, or

- (BII) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,
- (Ve) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section ~~3816~~3855,
- (VIf) for trades subject to broker-to-broker trade matching, the *Dealer Member* has a quarterly compliant trade percentage calculated using the methodology in section 4756 of greater than or equal to 85% for at least two of the last four quarters, and
- (VHg) for trades subject to institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their ~~trade~~transaction confirmation waiver, referred to in sub-clause ~~38163855(23)(xii)(b)~~, by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

(eiii) a swap transaction, provided:

- (Ia) the *Dealer Member* enters into a standard industry agreement with the client that is acceptable to the *Corporation*, and
- (Hb) the agreement sets out the terms for a client to receive a confirmation of a swap transaction and the key terms of the confirmation.

(div) a *derivatives* transaction where the *Dealer Member* is the executing broker and the transaction is executed for an *institutional client* under a give-up agreement, provided

- (Ia) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement,
- (Hb) the clearing *Dealer Member* is responsible, under the give-up agreement, for issuing the transaction confirmation to the client, and
- (Hc) the executing *Dealer Member*:
 - (AI) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,
 - (BI) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and
 - (CIII) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

(v) a transaction in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under subsection 3855(2).

(vi) automatic plan transactions that occur on a monthly or more frequent basis, provided that:

- (a) the transaction is in a security of a mutual fund, scholarship plan, educational plan or educational trust, and
 - (b) the Dealer Member provides written confirmation for the initial transaction in compliance with this section 3855.
- (4) A Dealer Member is not required to provide in the transaction confirmation the information required pursuant to:
- (i) subclause 3855(2)(i)(h), where the confirmation is sent to an institutional client for transactions in over-the-counter investment products, other than debt securities, with the exception that any commission, if charged in respect of the transaction, must be included in the confirmation, or
 - (ii) clause 3855(2)(viii), where the confirmation is for transactions involving investment products of an issuer whose name is sufficiently similar to the name of the Dealer Member to indicate that they are related or affiliated.

~~3835~~3856. Option of earlier date

- (1) Dealer Members have the option of providing clients with the following *position cost and performance* information:
- (i) *position cost* information included in client account statements [Definition of *position* cost in subsection 3802(1) and clauses ~~3808~~3851(34)(vii) and ~~3808~~3851(34)(ixvii)],
 - (ii) *position cost* information included in the report on ~~client positions held outside of the Dealer Member~~holdings [Definition of *position* cost in subsection 3802(1) and clauses ~~3809~~3852(2)(iii) and ~~3809~~3852(2)(vi)],
- that is prepared as at a date earlier than December 31, 2015.
- (2) Dealer Members have the option of providing clients with the following ~~position cost and~~ performance information:
- (i) activity information included in the annual performance report [clauses ~~3810~~3853(2)(i) through ~~3810~~3853(2)(iv)], and
 - (ii) percentage return information included in the annual performance report [clause ~~3810~~3853(2)(v)],
- that is prepared for a period that begins on a date earlier than July 15, 2015.
- (3) Where the option in subsection ~~3835~~3856(1) is pursued, all of the position cost information referenced in clauses ~~3835~~3856(1)(i) and ~~3835~~3856(1)(ii) must be prepared for all similar clients as at the same date.
- (4) Where the option in subsection ~~3835~~3856(2) is pursued, all of the activity and percentage return information referenced in clauses ~~3835~~3856(2)(i) and ~~3835~~3856(2)(ii) must be prepared for all similar clients as at the same date.

A similar proposal to replace the defined term “cost” with “position cost” in every occurrence within this section has also been made in CIRO Bulletin 24-0288.

~~3836. — 3844. Reserved.~~

38453857. Timing of the sending ~~Delivery~~ of documents to clients

- (1) All confirmations, statements, reports and other documents that are required to be sent to clients under ~~sections 3803 through 3819~~ Rule 3800, Part B, must be:
 - (i) sent promptly to clients,
 - (ii) provided to clients in electronic format in accordance with applicable laws or, when requested, in paper format.
- (2) The report on outside holdings, prepared pursuant to section 3852, must be sent to the client either:
 - (i) as a separate document [titled “Report on client positions held outside of the Dealer Member”] within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or
 - (ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date, provided that is done in a manner that would not mislead a reasonable client with regards to:
 - (a) the client’s assets or positions controlled by the Dealer Member and the client’s outside holdings,
 - (b) the party that holds or controls each client outside holding position and the way it is held, and
 - (c) the client assets that are eligible for coverage under the IPF, or another investor protection fund approved or recognized by a Canadian securities regulatory authority, and the ones that are not.

~~The following documents must be sent to retail clients together:~~

- ~~(i) — performance report [section 3810], and~~
 - ~~(ii) — fee / charge report [section 3811].~~
- (3) The Dealer Member may provide clients with consolidated statements of client accounts with outside holding reports in addition to, but not in place of, the account statements and outside holdings reports sent to clients separately or combined, in compliance with subsection 3857(2).
- ~~The following documents must be sent to retail clients within 10 days after the client account statement for the monthly or quarterly period ending on the same date is sent:~~
- ~~(i) — report on client positions held outside of the Dealer Member [section 3809], and~~
 - ~~(ii) — performance report and fee/charge report [sections 3810 and 3811].~~
- (4) The performance report and the fee/charge report, prepared pursuant to sections 3853 and 3854 for the same 12-month period, must be sent to the client together and either:
 - (i) within 10 days after sending the client account statement, pursuant to section 3851, for the monthly or quarterly period ending on the same date, or
 - (ii) combined with the client account statement, prepared pursuant to section 3851, for the monthly or quarterly period ending on the same date.

In CIRO Bulletin 24-0288 we propose adding the following new sections to CIRO Rules, which, once approved,

we will incorporate with the shown adjustment into DC Rule sections 3858 and 3859, respectively:

3858. Client reporting responsibility

- (1) A *Dealer Member* who acts as a *carrying broker*, or only provides trade execution, clearing, settlement or custody services or a combination of these services, to another *Dealer Member*, ~~*Mutual Fund Dealer Member*~~, *portfolio manager*, *exempt market dealer* or their respective clients, with regards to a client account or *outside holding* positions, is exempt from the responsibility to send:

- (i) a performance report to the client, pursuant to section ~~3810~~3853, and
- (ii) a fee/charge report to the client, pursuant to section ~~3811~~3854, except for its own service fees and charges to the client,

regarding such a client account or *outside holding* positions, unless it has undertaken to send such reports on behalf of the other *Dealer Member*, ~~*Mutual Fund Dealer Member*~~, *portfolio manager* or *exempt market dealer* pursuant to an outsourcing or service arrangement.

3859. Corporation exemptions

- (1) The *Corporation* may exempt a *Dealer Member* from the applicable reporting requirements under sections ~~3809~~3852, ~~3810~~3853 and ~~3811~~3854 with respect to clients *outside holdings*, when the costs of requiring the *Dealer Member* to comply with such requirements significantly outweigh the benefits to the *Dealer Member's* clients from such reporting.
- (2) The *Corporation* will grant such exemption if it is satisfied that to do so would not prejudice the interests of the *Dealer Member's* clients, the public or the *Dealer Member*.
- (3) In granting an exemption under section ~~3846~~3859, the *Corporation* may impose any terms and conditions it considers necessary.

3860. Exempt Market Dealers and Scholarship Plan Dealers

- (1) Where a *Mutual Fund Dealer Member* is also registered as:
- (i) an exempt market dealer, and a client has purchased a security from the *Mutual Fund Dealer Member* that is sold pursuant to an exemption under securities laws; or
 - (ii) as a scholarship plan dealer, and a client has invested in a scholarship plan through the *Mutual Fund Dealer Member*,
- the *Mutual Fund Dealer Member* must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities laws.

~~3846~~3861. – 3899. Reserved.

RULE 4100 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

4101. Introduction

- (1) Rule 4100 sets out the following *Dealer Member* general financial requirements:

Part A - Minimum capital level and related requirements

[sections 4110 through ~~4119~~4120]

Part B - Early warning tests and related requirements

[sections 4130 through 4138]

Part C - Regulatory financial report filing requirements

[sections 4150 through 4153]

Part D - Appointment of auditors and audit requirements

[sections 4170 through 4192]

4102. - 4109. Reserved.

PART A - MINIMUM CAPITAL LEVEL AND RELATED REQUIREMENTS

4110. Introduction

- (1) Part A of Rule 4100 sets out general *Corporation requirements* for:

(i) minimum capital levels,

(ii) maintaining at all times a positive *risk adjusted capital* amount,

(iii) averting, reporting and remedying any negative *risk adjusted capital* situations,

(iv) calculating its current *risk adjusted capital* amount,

(v) maintaining and utilizing a capital adequacy reporting system, and

(vi) consolidating its financial position reporting with *related companies*.

4111. Minimum capital levels

(1) A Dealer Member must maintain at all times a minimum capital amount for the purposes of calculating risk adjusted capital.

(2) A Mutual Fund Dealer Member's minimum capital amount is based on designated levels as follows:

<u>Dealer Level</u>	<u>Description</u>
(i) <u>Level 1 Dealer</u>	<u>A Mutual Fund Dealer Member that is:</u> <u>(a) an introducing broker which complies with the requirements in sections 2407 and 2430,</u> <u>(b) not a Level 2, 3 or 4 Dealer, and</u> <u>(c) not otherwise registered in any other category of registration under securities laws.</u>
(ii) <u>Level 2 Dealer</u>	<u>A Mutual Fund Dealer Member that does not hold or control client cash, securities or other property.</u>

<u>Dealer Level</u>	<u>Description</u>
<u>(iii) Level 3 Dealer</u>	<u>A Mutual Fund Dealer Member that does not hold or control client securities or other property except client cash in a trust account.</u>
<u>(iv) Level 4 Dealer</u>	<u>A Mutual Fund Dealer Member that:</u> <u>(a) holds or controls client cash, securities or other property, and</u> <u>(b) is not a Level 3 Dealer.</u>

(3) The minimum capital amount for:

(i) a Mutual Fund Dealer Member is:

- (a) \$25,000 for a firm designated as a Level 1 Dealer.
- (b) \$50,000 for a firm designated as a Level 2 Dealer that is not registered as an investment fund manager under securities laws.
- (c) \$75,000 for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under securities laws.
- (d) \$100,000 for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under securities laws.
- (e) \$200,000 for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients.
- (f) \$250,000 for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients.

and

(ii) an Investment Dealer Member is:

- (a) \$75,000 for a firm that is a Type 1 introducing broker, and
- (b) \$250,000 for a firm that is not a Type 1 introducing broker.

4112. Maintaining a positive risk adjusted capital amount

- (1) A Dealer Member must at all times maintain a *risk adjusted capital* amount of greater than zero.

4112~~4112~~4113. Negative risk adjusted capital and other early warning test failure situations

- (1) The *Chief Financial Officer* and *Ultimate Designated Person* must take prompt action to:
 - (i) avert or remedy any projected or actual negative *risk adjusted capital* situations,
 - (ii) report to the *Corporation* any actual negative *risk adjusted capital* situations,
 - (iii) report to the *Corporation* any early warning test failure situations that could require the *Dealer Member* to be designated in early warning level 1 or level 2, and
 - (iv) report to the *Corporation* any circumstances from which it should be apparent that there would be early warning test failures that could require the *Dealer Member* to be designated in early warning level 1 or level 2 if the *Dealer Member* had complied with the requirements of Rule 4100 and performed the early warning test calculations.

41134114. Calculating current risk adjusted capital amount - general requirements

- (1) A Dealer Member must calculate its *risk adjusted capital* amount according to the requirements specified in Form 1 and any other *Corporation requirements*.
- (2) A Dealer Member must know its current *risk adjusted capital* amount by computing it as often as necessary to ensure it has adequate regulatory capital at all times. The Dealer Member must also comply with weekly, monthly and annual calculation and documentation requirements in Rule 4100.

41144115. Calculating current capital position – weekly documentation

- (1) ~~At least weekly, but more frequently if required (for instance, the Dealer Member is close to violating an early warning test or volatile market conditions exist), the~~ The Chief Financial Officer or designate must document that he or she has:
 - (i) received management reports produced by the Dealer Member's accounting system showing information relevant to estimating the Dealer Member's *risk adjusted capital* amount,
 - (ii) obtained other information about items that, while perhaps not yet recorded in the accounting system, are likely to significantly affect the Dealer Member's *risk adjusted capital* amount (for instance, bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements),
 - (iii) calculated the Dealer Member's *risk adjusted capital* amount, compared it to planned and prior period capital levels, and reported adverse trends or variances to the *Ultimate Designated Person*,
 - (iv) performed the early warning liquidity and capital test calculations for the Dealer Member and determined whether or not the Dealer Member has or may have violated any of these tests, and
 - (v) performed the early warning profitability test calculations for the Dealer Member where the Dealer Member has experienced a significant month-to-date loss, and determined whether or not the Dealer Member has or may have violated this test.
- (2) The Chief Financial Officer or designate must document and calculate the current capital position under section 4115(1):
 - (i) at least weekly, for a Level 4 Dealer or an Investment Dealer Member, or
 - (ii) at least twice per month, for a Level 1, 2 or 3 Dealer,but more frequently if required, including but not limited to instances where the Dealer Member is close to violating an early warning test or volatile market conditions exist.

41154116. Calculating current capital position - monthly documentation and reconciliation

- (1) A Dealer Member must generate monthly trial balances and prepare regulatory capital computations based on its current ledger accounts to:
 - (i) check on status and accuracy of those ledger accounts, and
 - (ii) keep itself informed of its *risk adjusted capital* amount as required under Part A of Rule 4100.

- (2) The *Chief Financial Officer* or designate must document that he or she has at least monthly, performed the early warning liquidity, capital and profitability test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has violated this test.
- (3) The preliminary month-end estimate of the *Dealer Member's risk adjusted capital* amount must be reconciled to the final *risk adjusted capital* amount reported as part of the *Dealer Member's monthly financial report*. Material discrepancies must be investigated and steps taken to avoid re-occurrence.

~~4116~~4117. Dealer Member capital adequacy reporting system - adequate policies and procedures

- (1) A *Dealer Member* must:
 - (i) have policies and procedures that specifically address timely, complete and accurate records,
 - (ii) maintain a capital adequacy reporting system:
 - (a) based on timely, complete and accurate accounting records,
 - (b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (for instance, capital markets, principal trading, borrowing/lending),
 - (c) that includes senior management approved capital usage limits for each of these functional areas that provides for reasonable assurance its combined operations maintain adequate intra-day and end of day *risk adjusted capital* amounts, and
 - (d) that identifies and informs senior management of breaches of approved capital usage limits. The *Chief Financial Officer* is responsible for identifying any breaches and reporting them to the *Dealer Member's* appropriate *Executives*,
 - (iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains at all times a positive *risk adjusted capital* amount as prescribed by *Corporation requirements*,
 - (iv) identify and implement changes, on an ongoing basis, to its capital adequacy reporting system required to reflect developments in its business or in regulatory requirements, and
 - (v) perform and document, at least annually, a supervisory review of its capital adequacy reporting system.
- (2) A *Dealer Member's Chief Financial Officer* must continuously monitor the *Dealer Member's risk adjusted capital* amount to ensure that the *Dealer Member* maintains at all times a positive *risk adjusted capital* amount as prescribed by *Corporation requirements*.

~~4117~~4118. Consolidation of financial position with related companies

- (1) In calculating its *risk adjusted capital*, a *Dealer Member* may consolidate its financial position with the financial position of any of its *related companies* if:
 - (i) the *Corporation* has provided the *Dealer Member* with prior written approval of the consolidation,

- (ii) the *Dealer Member* has guaranteed the obligations of the *related company* and the *related company* has guaranteed the obligations of the *Dealer Member*,
 - (iii) the *guarantees* are:
 - (a) in a form acceptable to the *Corporation*, and
 - (b) unlimited in amount,
 and
 - (iv) the consolidation meets the requirements in subsection 411~~7~~8(2).
- (2) A *Dealer Member* consolidating its financial position with a *related company* under subsection 411~~7~~8(1) must comply with the following requirements or with other requirements acceptable to the *Corporation*:
- (i) eliminate inter-company accounts between the *Dealer Member* and the *related company*,
 - (ii) eliminate any minority interests in the *related company* from the *Dealer Member's* capital calculation, and
 - (iii) combine *Dealer Member* and *related company* financial information prepared as at the same date.

~~4118~~4119. Options for calculating risk adjusted capital available to well-capitalized Dealer Members

- (1) A *Dealer Member*, whose *risk adjusted capital*, *early warning excess* and *early warning reserve* amounts are substantially in excess of that required under *Corporation requirements*, may apply requirements more stringent than the *Corporation* capital computation requirements and thereby omit certain documentation in support of the computation. For example, when calculating *risk adjusted capital*:
- (i) inventories can be grouped into broader margin categories and maximum margin rates applied,
 - (ii) margin requirement reductions for offset positions recognized elsewhere in *Corporation requirements* can be ignored, and
 - (iii) assets partly allowable or of questionable value can be excluded entirely.

~~4119~~4120. Dealer Member guarantees

- (1) Any *guarantee* provided by a *Dealer Member* must be of a fixed or determinable amount, unless the *guarantee* is given to a *related company* in accordance with section 2206.

~~4120~~4121. - 4129. Reserved.

PART B - EARLY WARNING TESTS AND RELATED REQUIREMENTS

4130. Introduction

- (1) Part B of Rule 4100 describes the early warning system that alerts the *Corporation* to a *Dealer Member's* financial or operational problems. It also sets out the process the *Corporation* follows and the requirements that *Dealer Members* must comply with to resolve *early warning test violation* situations before they worsen.
- (2) A *Dealer Member* has a responsibility to:
 - (i) monitor for *early warning test violations*,

- (ii) avoid the potential for *early warning test violations*, and
- (iii) report *early warning test violations* to the Corporation when they occur.

4131. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4100:

“average monthly loss” <u>(perte mensuelle moyenne)</u>	The sum of the <i>Dealer Member’s</i> monthly <i>profit</i> and <i>loss</i> amounts for a particular period divided by the number of months in the period and the result is a loss.
“early warning test violation” <u>(transgression d’un contrôle lié au signal précurseur)</u>	~~The~~ <u>A violation that has occurred because:</u> <u>(i) a Level 1, 2 or 3 Dealer has failed an early warning test as set out in Schedule 16 of Form 1, or</u> <u>(ii) a Level 4 Dealer or an Investment Dealer Member has failed an early warning test as set out in Schedules 1317 and 1317A of Form 1.</u>
“loss” <u>(perte)</u>	The <i>Dealer Member’s</i> loss, if any, for early warning test purposes as set out in Statement <u>ED</u> of Form 1.
“profit” <u>(profit)</u>	The <i>Dealer Member’s</i> profit, if any, for early warning test purposes as set out in Statement <u>ED</u> of Form 1.

4132. Early warning designation, levels and tests

- (1) A Level 1, 2 or 3 Dealer is designated as being in early warning level 1 if at any time it has violated any one of the following tests:

<u>Early warning tests</u>	<u>Early warning level 1</u>
<u>Liquidity test</u>	<u>Mutual Fund Dealer Member’s early warning excess is less than zero.</u>
<u>Capital test</u>	<u>Mutual Fund Dealer Member’s risk adjusted capital is less than zero.</u>
<u>Profitability test #1</u>	<u>Mutual Fund Dealer Member’s current month risk adjusted capital is less than the loss for the most recent quarter.</u>
<u>Profitability test #2</u>	<u>Mutual Fund Dealer Member’s current month risk adjusted capital is less than the loss for the most recent 6 months.</u>
<u>Frequency</u>	<u>Mutual Fund Dealer Member has been designated as being in any early warning, excluding discretionary early warnings, two or more times in the preceding twelve months.</u>

- (2) A Level 4 Dealer or an Investment Dealer Member is designated as being in early warning level 1 or level 2 if at any time it has violated any one of the following tests:

<u>Early warning tests</u>	<u>Early warning level 1</u>	<u>Early warning level 2</u>
<u>Liquidity test</u>	<u>Dealer Member’s early warning reserve is less than zero.</u>	<u>Dealer Member’s early warning excess is less than zero.</u>

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

4133. Early warning related requirements

- (1) When a *Dealer Member* has been designated as being in early warning level 1 or level 2, because of an *early warning test violation* under section 4132, the following actions must be taken:

	Early warning level 1	Early warning level 2
Notifying the Corporation in writing	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must immediately deliver a letter to the <i>Corporation</i> detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the <i>Dealer Member's</i> proposed plan to rectify the problems identified, and (iv) the <i>Dealer Member's</i> acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the ~~Canadian~~-Investor Protection Fund.	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must immediately deliver a letter to the <i>Corporation</i> detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation, (iii) the <i>Dealer Member's</i> proposed plan to rectify the problems identified, and (iv) the <i>Dealer Member's</i> acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The <i>Dealer Member</i> must send a copy of the notification letter to its auditor and the ~~Canadian~~-Investor Protection Fund.
Meeting with the Corporation	Not applicable	The <i>Dealer Member's Ultimate Designated Person</i> and <i>Chief Financial Officer</i> must meet with the <i>Corporation</i> to present the <i>Dealer Member's</i> plan for rectifying the identified problems.
Taking required actions	The <i>Dealer Member</i> must: (i) file a <i>monthly financial report</i> required under section 4151 within 15 <i>business days</i> after the end of each month or on any earlier day that the <i>Corporation</i> considers practicable, (ii) provide any other information that the <i>Corporation</i> requests, and (iii) comply with the business restrictions in section 4135.	The <i>Dealer Member</i> must: (i) file a weekly capital report with the same information as a <i>monthly financial report</i> within five <i>business days</i> after the end of each week or on any earlier day that the <i>Corporation</i> considers practicable, (ii) file a weekly report, in a <i>Corporation</i> prescribed form, of its aged <i>segregation</i> deficiencies and an outline of its plan to correct them according to sections 4321 through 4326,

	Early warning level 1	Early warning level 2
		(iii) file a business plan for such period and covering such matters as the <i>Corporation</i> specifies, (iv) file its next <i>monthly financial report</i> required under section 4151 within 10 <i>business days</i> after the end of each month or any earlier day that the <i>Corporation</i> considers practicable, (v) provide any other information that the <i>Corporation</i> requests, and (vi) comply with the business restrictions in section 4135.
Responding to the Corporation's letter	The <i>Corporation</i> will send a letter to a <i>Dealer Member</i> in early warning level 1 confirming that the <i>Dealer Member</i> has been designated as being in early warning level 1 and requesting information from the <i>Dealer Member</i>. A <i>Dealer Member</i> will respond to the <i>Corporation's</i> early warning letter within five <i>business days</i>: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the <i>Dealer Member's</i> early warning situation if any material circumstances have changed. The <i>Dealer Member</i> must send copies of its response letter to its auditor and the ~~Canadian~~-Investor Protection Fund.	The <i>Corporation</i> will send a letter to a <i>Dealer Member</i> in early warning level 2 confirming that the <i>Dealer Member</i> has been designated as being in early warning level 2 and requesting information from the <i>Dealer Member</i>. A <i>Dealer Member</i> will respond to the <i>Corporation's</i> early warning letter within five <i>business days</i>: (i) with the requested information, or (ii) acknowledging it will submit the information promptly, and (iii) with an update on the <i>Dealer Member's</i> early warning situation if any material circumstances have changed. The <i>Dealer Member</i> must send copies of its response letter to its auditor and the ~~Canadian~~-Investor Protection Fund.
On-site reviewing of the Dealer Member's procedures	The <i>Corporation</i> will as soon as practicable:	The <i>Corporation</i> will as soon as practicable:

	Early warning level 1	Early warning level 2
	(i) conduct an on-site review of the <i>Dealer Member's</i> procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	(i) conduct an on-site review of the <i>Dealer Member's</i> procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.
Reimbursing the Corporation for costs	The <i>Corporation</i> may require a <i>Dealer Member</i> to pay reasonable costs and expenses incurred to administer the <i>Dealer Member's</i> early warning situation under Rule 4100.	The <i>Corporation</i> may require a <i>Dealer Member</i> to pay reasonable costs and expenses incurred to administer the <i>Dealer Member's</i> early warning situation under Rule 4100.

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

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

4135. Restrictions on a Dealer Member in early warning

- (1) A *Dealer Member* designated as being in early warning level 1 or 2 must obtain the *Corporation's* written consent before:
- (i) reducing its capital in any way, including by share redemption, re-purchase or cancellation,
 - (ii) reducing any of its *Corporation* approved subordinated indebtedness,
 - (iii) incurring any direct or indirect loan, advance, bonus, dividend, capital or other payments or distributions of assets to any *Director, officer, partner, shareholder, related company, affiliate or associate*, or
 - (iv) incurring any commitments to increase its non-allowable assets.

4136. Additional restrictions

- (1) The *Corporation* may impose any of the following additional restrictions on a [Level 4 Dealer or an Investment Dealer Member](#) in early warning:

Early warning level 1	Early warning level 2
None	(i) Reducing the amount of clients' <i>free credit balances</i> that the <i>Dealer Member</i> or its <i>carrying broker</i> may use under Part C of Rule 4300, to an amount the <i>Corporation</i> considers desirable.

Early warning level 1	Early warning level 2
	(ii) Prohibiting the <i>Dealer Member</i> from opening new branch offices, hiring any new <i>Registered Representatives, Investment Representatives, Portfolio Managers</i> or <i>Associate Portfolio Managers</i> , opening any new client accounts, or changing in any material way the <i>Dealer Member's</i> inventory positions.

- (2) The Corporation may impose the following additional restrictions on a Level 1, 2 or 3 Dealer in early warning:

<u>Early warning level 1</u>	<u>Early warning level 2</u>
<u>(i) Prohibiting the <i>Mutual Fund Dealer Member</i> from opening new branch offices, hiring any new <i>Approved Persons</i>, opening any new client accounts, or changing in any material way the <i>Mutual Fund Dealer Member's</i> inventory positions.</u>	<u>N/A</u>

- (3) For the restrictions under early warning level 2 part (ii) of subsection 4136(1) and early warning level 1 part (i) of subsection 4136(2), the *Corporation* must provide the *Dealer Member* with a written notice of the order imposing additional restrictions on the *Dealer Member*.
- (34) Review of early warning level 2-prohibitions
- (i) The *Dealer Member* may request a *hearing panel* review of a subsection ~~4136(2)~~4136(3) order within three *business days* after release of the decision.
 - (ii) If a request for review is made, the *hearing* shall be held as soon as reasonably possible and no later than 21 days after the request for review, unless otherwise agreed by the parties. The *hearing panel* review shall be conducted in accordance with the requirements set out in Rule 9300.
 - (iii) If a *Dealer Member* does not request a review within the time period prescribed in clause ~~4136(3)~~4136(4)(i), the subsection ~~4136(2)~~4136(3) order becomes effective and final.

4137. Prohibited transactions

- (1) A *Dealer Member* must not enter into any transaction that would cause the *Dealer Member* to be in early warning unless it first notifies the *Corporation* in writing of its intention to do so and receives the *Corporation's* written approval.

4138. Lifting an early warning designation

- (1) A *Dealer Member* will remain designated as being in early warning level 1 or 2 until the *Corporation* confirms in writing that the early warning designation has been lifted. The *Corporation* will lift the early warning designation when the *Dealer Member* files a *monthly financial report*, or submits such other evidence or assurances, that satisfies the *Corporation* that the *Dealer Member* has solved the problems that placed it in early warning.

4139. - 4149. Reserved.

PART C - REGULATORY FINANCIAL REPORT FILING REQUIREMENTS

4150. Introduction

- (1) Part C of Rule 4100 sets out a *Dealer Member's* financial reporting obligations. Financial reporting enables the *Corporation* to monitor a *Dealer Member's* financial position and compliance with *Corporation requirements* relating to regulatory capital, as well as to receive an early indication of any deterioration in that position.

4151. Dealer Member financial filings

- (1) A *Dealer Member* must file:
 - (i) an audited Form 1 for its fiscal year within :
 - (a) seven weeks following year-end, if it is a Mutual Fund Dealer Member that offers margin lending to clients or an Investment Dealer Member,
 - (b) 90 days following year-end, if it is a Mutual Fund Dealer Member that does not offer margin lending to clients.
 - and
 - (ii) a *monthly financial report* for each calendar month within 20 *business days* following month-end,

in accordance with *Corporation requirements*.

4152. Extending deadline for financial filings

- (1) A *Dealer Member* may request an extension of time for filing its *monthly financial report* by writing to the *Corporation*.
- (2) A *Dealer Member's auditor* may request an extension of time for filing the *Dealer Member's* annual Form 1 by writing to the *Corporation*.
- (3) The *Corporation* may grant an extension under subsections 4152(1) and 4152(2) if it considers the request to be appropriate in the circumstances.

4153. Late filing fee

- (1) A *Dealer Member* must pay a fee, even when an extension is granted, to the *Corporation* if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by the *Corporation*.

4154. - 4169. Reserved.

PART D - APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS

4170. Introduction

- (1) Part D of Rule 4100 sets out the minimum requirements for the appointment of auditors and for the conducting of audits. The audit requirements ensure that auditors test for specific financial and regulatory compliance issues and report any breaches of rules or standards to the *Corporation*.

4171. Approved auditors

- (1) The *Corporation* annually approves, based on adopted criteria, a list of audit firms as panel auditors eligible to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.
- (2) The *Corporation* may remove an audit firm from the approved list if the audit firm no longer meets the criteria referred to in subsection 4171(1).

4172. Dealer Member's auditor

- (1) A *Dealer Member* must use a *Corporation* approved auditor to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.
- (2) A *Dealer Member* must notify the *Corporation* of any change in the *Dealer Member's* auditor and/or audit engagement partner.

4173. Responsibilities of a Dealer Member's auditor

- (1) The *Dealer Member's auditor* must:
 - (i) conduct an audit of the *Dealer Member's* fiscal year Form 1 filing, and
 - (ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the *Dealer Member's* fiscal year Form 1 filing.

4174. No limitation on scope or procedures

- (1) Nothing in Part D of Rule 4100:
 - (i) limits the scope of the audit, or
 - (ii) allows the *Dealer Member's auditor* to omit any additional audit procedure that it considers necessary under the circumstances.

4175. Audit in accordance with Canadian Auditing Standards

- (1) The *Dealer Member's auditor* must audit the *Dealer Member's* fiscal year Form 1 filing in accordance with Canadian Auditing Standards. The audit of a *Dealer Member* requires a substantive approach and must include a review of the accounting system and the *internal controls* for safeguarding assets.
The review must:
 - (i) cover any in-house or service bureau electronic data processing operations, and
 - (ii) where applicable, consider and include the appropriate report based on the Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization.
- (2) Although conducted in accordance with Canadian Auditing Standards, a *Dealer Member's* substantive audit procedures must be performed as at the fiscal year-end audit date and not as of an earlier date.
- (3) A *Dealer Member's risk adjusted capital* and *early warning reserve* levels must be considered when determining materiality for the *Dealer Member's* audit.

4176. Test procedures as at the fiscal year-end date

- (1) The *Dealer Member's auditor* must conduct the test procedures in sections 4177 through 4188 as at the fiscal year-end date, ~~which is the fiscal year-end audit date.~~

4177. Account for all ~~securities, derivatives, precious metals bullion~~investment products, currencies, and other like assets

- (1) The *Dealer Member's auditor* must account for all ~~securities, derivatives, precious metals bullion~~investment products, currencies and other like assets, including those held in safekeeping or in segregation, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.
- (2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.
- (3) If a *Dealer Member* has employees who are independent of its employees who handle or record ~~securities, derivatives, precious metals bullion~~investment products, currencies and other like assets, those independent employees may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.
- (4) The *Dealer Member's auditor* must test count and compare sufficient ~~security, derivative, precious metals bullion~~investment product, currency and other like asset counts with the independent employees' counts, if applicable, and with the position records, to be satisfied that the entire count was materially correct.
- (5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

4178. Verify ~~securities~~positions in transfer and in transit

- (1) On a test basis, the *Dealer Member's auditor* must verify positions in transfer and in transit between the *Dealer Member's* offices.

4179. Review the Dealer Member's position balancing and account reconciliations

- (1) The *Dealer Member's auditor* must review the *Dealer Member's*:
 - (i) balancing of all ~~security, derivative and precious metals bullion~~investment product positions,
 - (ii) ~~reconciliation~~reconciliations of all broker, ~~and~~ dealer accounts to the broker's corresponding statements,
 - (iii) reconciliations of nominee name mutual fund positions, clearing account positions, and non-certificated instrument positions, the *Dealer Member* holds or controls (in its inventory and for clients) with the counterparty's corresponding statements, and
 - (iiiiv) ~~reconciliation~~reconciliations to ensure that all necessary adjustments identified during the preparation have been made.
- (2) If a position or account is not in balance according to the *records* (after adjusting to the physical count):
 - (i) the *Dealer Member's auditor* must find out whether the *Dealer Member* has adequately provided for any potential loss, and

- (ii) the *Dealer Member* must make that provision according to the Notes and Instructions for unresolved differences in Statement B of Form 1.

4180. Review bank reconciliations

- (1) The *Dealer Member's auditor* must:
 - (i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the *Dealer Member's* banks which cover a period ending at least 10 *business days* after the fiscal year-end audit date,
 - (ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts as of the fiscal year-end audit date and on a test basis, using appropriate audit procedures, and
 - (iii) verify that all necessary adjustments identified during the preparation of the reconciliation have been made.

4181. Review custodial agreements and approvals

- (1) ~~The~~Where a Dealer Member custodies assets with third parties, the *Dealer Member's auditor* must:
 - (i) ensure that all custodial agreements in the form prescribed by the *Corporation*, are in place for ~~securities-and~~, precious metals bullion and other like assets, lodged with *acceptable securities locations*, and
 - (ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. Obtain written positive confirmations

- (1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and ~~security, precious metals bullion and derivative~~investment product positions.
- (2) The *Dealer Member's auditor* must obtain written positive confirmation of:
 - (i) all bank balances and other deposits including hypothecated *securities*,
 - (ii) all money and ~~security, precious metals bullion and derivative~~investment product positions custodied or lodged with third parties, including with clearing houses, similar organizations, and issuers of non-certificated instruments,
 - (iii) all money and *securities* loaned or borrowed (including *subordinated debt*) and details of collateral received or pledged, if any,
 - (iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and ~~security, precious metals bullion and derivative~~investment product positions,
 - (v) all accounts of *Directors* and *officers* or partners, including money and ~~security, precious metals bullion and derivative~~investment product positions held or controlled by the Dealer Member,
 - (vi) a sample of client, *employee*, and shareholder accounts, including money and ~~security, precious metals bullion and derivative~~investment product positions held or controlled by the Dealer Member,

- (vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or as at the end of the fiscal year,
- (viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and
- (ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. Selection of accounts for positive confirmation

- (1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:
 - (i) must send a positive confirmation request,
 - (ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and
 - (iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.
- (2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:
 - (i) select specific accounts for positive confirmation based on:
 - (a) account size (all accounts with net equity exceeding a certain dollar value, based on the level of materiality), and
 - (b) other characteristics such as accounts in dispute, accounts that are significantly under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,
 - (ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and
 - (iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

4184. Written confirmation of clients' accounts with no balance

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

4185. Effect on capital if no positive written confirmation received for a guarantee

- (1) If the *Dealer Member's auditor* does not receive a reply to a positive confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the

guarantee agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:

- (i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or
 - (ii) the parties sign a new account *guarantee* agreement.
- (2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the *guarantee*, that *guarantee* must not be accepted for margin reduction purposes until:
- (i) the dispute is resolved, and
 - (ii) the guarantor provides a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

4186. Review a sample of signed guarantee agreements

- (1) The *Dealer Member's auditor* must review a sample of the *Dealer Member's guarantee* agreements to ensure they are signed, completed, and comply with the minimum requirements set out in subsection 5825(1).

4187. Tests and procedures on statements and schedules of Form 1

- (1) The additional information set out in Part II of Form 1 should be subjected to the procedures in the audit of Part I of Form 1, which are in accordance with Canadian Auditing Standards. No procedures are required to be carried out in addition to those necessary to form an opinion on Part I of Form 1.

4188. Test statements for a description of ~~securities and precious metals bullion~~ assets held in safekeeping

- (1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* position record and client statements accurately describe the ~~securities~~ and precious metals bullion and other like assets held in *safekeeping*.

4189. Dealer Member obligations to auditor

- (1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.
- (2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.
- (3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

4190. Calculations for Form 1 and other reporting

- (1) The auditor, of a Mutual Fund Dealer Member's ~~auditor that offers margin lending to clients or an Investment Dealer Member~~, must perform the procedures identified in the "Agreed-upon Procedures Report on compliance for insurance, segregation of ~~securities~~ investment products, and guarantee/guarantor relationships relied upon to

reduce margin requirement during the year” in Form 1 and report on the results as at the fiscal year-end audit date.

- (2) The auditor, of a Mutual Fund Dealer Member that does not offer margin lending to clients, must perform the procedures identified in the “Agreed-upon Procedures Report on compliance for insurance and segregation of cash and investment products” in Form 1 and report on the results as at the fiscal year-end audit date.

4191. Auditor’s records

- (1) The *Dealer Member's auditor* must retain a final copy of Form 1 and all audit working papers for ~~six~~seven years.
- (2) All audit working papers for the two most recent years must be readily accessible.
- (3) The *Dealer Member's auditor* must make all working papers available for review by the *Corporation* and the *Investor Protection Fund*.

4192. Auditor’s obligation to report to the Corporation

- (1) If during the regular conduct of an audit, the *Dealer Member's auditor* observes any material breach of *Corporation requirements* related to:
 - (i) calculating the *Dealer Member's* financial position,
 - (ii) handling and custody of *securities*, ~~and~~ precious metals bullion and other like assets,
or
 - (iii) maintaining adequate *records*,
 the *Dealer Member's auditor* must report that breach to the *Corporation*.
- (2) The *Dealer Member's auditor* must report to the Corporation on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member's risk adjusted capital* level.

4193. - 4199. Reserved.

RULE 4200 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

4201. Introduction

- (1) Rule 4200 sets out the following *Dealer Member* general financial requirements:

- Part A - Financial disclosure to clients
[sections 4202 through 4209]
- Part B - General internal control requirements
[sections 4220 through 4225]
- Part C - Pricing internal control requirements
[sections 4240 through 4244]
- Part D - Calculation of prices on a yield basis
[sections 4260 through 4267]
- Part E - Professional opinions
[sections 4270 through 4276]

PART A - FINANCIAL DISCLOSURE TO CLIENTS

4202. Introduction

- (1) If a client so requests, a *Dealer Member* must disclose its financial position to the client to enable them to assess the *Dealer Member's* financial position. Part A of Rule 4200 sets out the requirements that a *Dealer Member* must comply with in order to present this information to the client in a complete and consistent manner.

4203. Summary statement of financial position available

- (1) A *Dealer Member* must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.
- (2) The summary statement of financial position must be as at the *Dealer Member's* latest fiscal year-end date and based on its latest annual audited financial statements.
- (3) ~~A~~An Investment *Dealer Member* must prepare the summary statement of financial position within 75 days of its fiscal year-end.
- (4) A Mutual Fund Dealer Member must prepare the summary statement of financial position within 120 days of its fiscal year-end.

4204. Summary statement of financial position - contents

- (1) A *Dealer Member's* summary statement of financial position must contain material information including details of the *Dealer Member's* assets, liabilities and financial statement capital, and be generated ~~using~~from within the ~~Securities Industry Regulatory Financial Filings~~Corporation's regulatory financial filing system.

4205. Audited or unaudited summary statement of financial position

- (1) The summary statement of financial position must either be:

- (i) audited and accompanied by:
 - (a) a report prepared by the *Dealer Member's auditor* stating that it fairly summarizes the financial position of the *Dealer Member*, and
 - (b) notes disclosures specified by the *Dealer Member's auditor*,
- or
- (ii) unaudited and:
 - (a) generated from within the ~~Securities Industry Regulatory Financial Filings~~Corporation's regulatory financial filing system using information from the most recent audited Form 1 of the *Dealer Member*,
 - (b) certified by the *Dealer Member's Chief Financial Officer*, and
 - (c) accompanied by note disclosures that at a minimum describe, management's responsibility for the summary statement of financial position, and the basis of accounting and restriction on the use of the summary statement of financial position.

4206. Publishing a summary statement of financial position

- (1) If a *Dealer Member* publishes or circulates a summary statement of financial position in any document, it must:
 - (i) be in the same form, and
 - (ii) contain the same information,
 as the statement made available to the *Dealer Member's* clients.

4207. List of current Executives and Directors

- (1) A *Dealer Member* must provide a current list of its *Executives* and *Directors*, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

4208. Disclosures available to clients

- (1) A *Dealer Member* must state on each account statement sent to clients, or in another manner the *Corporation* approves, that:
 - (i) its summary statement of financial position, and
 - (ii) list of *Executives* and *Directors*,
 are available on request to any client who has traded in his or her account within the previous 12 months.

4209. Consolidated financial statements - similar named entity

- (1) A *Dealer Member* must disclose its financial statements separately from those of any *affiliate* or *holding company* with a similar name.
- (2) If a *Dealer Member's* accounts are included in the consolidated financial statements of its *holding company* or *affiliate* with a name similar to the *Dealer Member's*, and those consolidated financial statements are published or circulated in any document or other medium, then either:
 - (i) the consolidated financial statements must include a note indicating that:

- (a) they relate to an entity that is not the *Dealer Member*, and
- (b) although the statements include the *Dealer Member's* accounts, they are not the *Dealer Member's* financial statements,

or

- (ii) at the time of publication or circulation, the *Dealer Member* must send to each client who has traded in his or her account within 12 months of the date of publication:
 - (a) its unconsolidated summary statement of financial position, and
 - (b) a letter explaining why the statement is being sent.

4210. - 4219. Reserved.

PART B - GENERAL INTERNAL CONTROL REQUIREMENTS

4220. Introduction

- (1) Part B of Rule 4200 sets out *Corporation requirements* for a *Dealer Member's internal controls* and risk management infrastructure. Effective *internal controls* will assist a *Dealer Member* not only in complying with *Corporation requirements* and *securities laws* but also in conducting its business with integrity and due regard to the interests of its clients.

4221. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4200:

“detective controls” <u>(contrôles de détection)</u>	Controls that discover, or increase the chances of finding, fraud or error, so the <i>Dealer Member</i> can take prompt corrective action.
“preventive controls” <u>(contrôles préventifs)</u>	Controls that prevent, or minimize the chances of, fraud and error.

4222. Adequate internal controls

- (1) A *Dealer Member* must establish and maintain appropriate *internal controls*.
- (2) The *Dealer Member's Executives* are responsible for ensuring adequate *internal controls* as part of their overall responsibility for managing the *Dealer Member's* operations.
- (3) The *Dealer Member's Executives* must use best judgment in determining whether *internal controls* are adequate.

4223. Preventive controls

- (1) When necessary, a *Dealer Member* must implement *preventive controls* based on the *Dealer Member's Executives' view* of the risk of loss and the cost-benefit relationship of controlling that risk.

4224. Written record

- (1) A *Dealer Member* must maintain a detailed written *record* of its *internal controls*, including, at a minimum, the policies and procedures the *Dealer Member's Executives* have approved to provide reasonable assurance of compliance with all *Corporation requirements* relating to *internal controls*.

4225. Review and written approval of internal controls

- (1) The *Dealer Member's Executives* must review a *Dealer Member's internal controls* for adequacy and suitability at least annually and more frequently as necessary or stipulated by *Corporation requirements*. They must approve a *Dealer Member's internal controls* in writing after each review.

4226. - 4239. Reserved.**PART C - PRICING INTERNAL CONTROL REQUIREMENTS****4240. Introduction**

- (1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that ~~securities, derivatives and precious metals bullion~~investment products are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used.

4241. Pricing procedures

- (1) A *Dealer Member* must consistently and accurately price all ~~securities, derivatives and precious metals bullion~~investment products. In Part C of Rule 4200, references to:
 - (i) *securities* include client and inventory positions in *securities* and *securities* used in financing transactions such as *security borrow and lend*, *repurchase agreement* and *reverse repurchase agreement* transactions,
 - (ii) *derivatives* include client and inventory positions in *derivatives*, and
 - (iii) *precious metals bullion* include client and inventory positions in *precious metals bullion*.
- (2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its:
 - (i) long and short *security* positions ,
 - (ii) long and short *derivative* positions, and
 - (iii) long *precious metals bullion* positions,
 to ensure accurate profit and loss reporting in accordance with *Corporation requirements*.
- (3) A *Dealer Member's* policies and procedures must specifically address consistently pricing and verifying prices of ~~securities, derivatives and precious metals bullion~~investment products.
- (4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in ~~security, derivatives and precious metals bullion~~investment product records that it uses to prepare management reports for monitoring:
 - (i) inventory profit and loss,
 - (ii) its regulatory capital position, and
 - (iii) *segregation*.
- (5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports' preparation. Conflicted *employees* must not be involved in ~~security and precious~~

~~metals bullion~~investment product pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

4242. Independent price verification and adjustment

- (1) A *Dealer Member* must verify its *security* and precious metals bullion prices at each month-end by comparing them with independent (third-party) pricing sources.
- (2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).
- (3) An appropriate *Executive* must:
 - (i) on a monthly basis, approve the resolution of all material differences, and
 - (ii) on an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.

4243. Retention of supporting documents

- (1) A *Dealer Member* must retain supporting documents to show that it has verified *security* and precious metals bullion pricing and made appropriate adjustments.

4244. Access to records

- (1) *Dealer Member* employees involved in *security* and precious metals bullion trading must not have access to back-office *security* and precious metals bullion price records.

4245. - 4259. Reserved.

PART D - CALCULATION OF PRICES ON A YIELD BASIS

4260. Introduction

- (1) Part D of Rule 4200 describes how to calculate a *security* price based on a *security's* current market yield.

4261. Definitions

- (1) The following term has the meaning set out below when used in Part D Rule 4200:

“regular delivery date” <u>(date de livraison normale)</u>	The settlement or delivery dates generally accepted in industry practice for a <i>security</i> in the market where the transaction occurs.

4262. Calculating price if no method is stated for calculating unexpired term

- (1) When a *Dealer Member* quotes a bid or offer based on yield, and neither the buyer nor seller *Dealer Member* states a price or a method for calculating the unexpired term, the price must be established according to sections 4264 through 4267.

4263. Exceptions

- (1) Sections 4264 through 4267 do not apply to trades in:
 - (i) Government of Canada bonds and bonds guaranteed by the Government of Canada,
 - (ii) ~~Short~~short-term bonds that have:

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

4264. Unexpired term - ~~Bonds~~bonds with unexpired terms to maturity up to and including 10 years

- (1) For a bond with an unexpired term to maturity up to and including 10 years, calculate the unexpired term as the exact period in years, months, and days from the *regular delivery date*:
 - (i) to the maturity date of a non-callable bond or callable bond selling at less than the call price, and
 - (ii) to the first redemption date of a callable bond selling at, or at a premium over, the call price.

4265. Unexpired term - ~~Bonds~~bonds with unexpired terms to maturity over 10 years

- (1) For a bond with an unexpired term to maturity of over 10 years, calculate the unexpired term as the period in years and months from the month in which the *regular delivery date* occurs:
 - (i) to the month and year of maturity of a non-callable bond or callable bond selling at less than the call price, and
 - (ii) to the first month and year that the bond is redeemable for a callable bond selling at, or at a premium over, the call price.

4266. Calculating the price and price precision

- (1) In calculating the price, the unexpired term must be expressed as years. To express the unexpired term in years:
 - (i) one day shall be deemed to be 1/30th of one month, and
 - (ii) one month shall be deemed to be 1/12th of one year.
- (2) For all bond transactions between *Dealer Members* and its clients where the price has been determined using the calculation approach set out in either section 4264 or 4265, the price must be extended to three decimal places of precision.

4267. New issues

- (1) Part D of Rule 4200 applies to new issues. The unexpired term to maturity is to start on the date that accrued interest, which is charged to the client, is calculated up to.

4268. - 4269. Reserved.

PART E - PROFESSIONAL OPINIONS

4270. Introduction

- (1) Part E of Rule 4200 sets requirements relating to *professional opinion* (defined in section 4271) standards.

4271. Definitions

- (1) The following terms have the meanings set out below when used in Part E of Rule 4200:

"Corporation standards" <u>(normes de l'Organisation)</u>	The disclosure standards in Part E of Rule 4200.
"disclosure document" <u>(document d'information)</u>	The same meaning as used in relevant <i>securities laws</i> .
"fairness opinion" <u>(avis sur le caractère équitable)</u>	A report of a <i>valuer</i> that contains the <i>valuer's</i> opinion as to the fairness, from a financial point of view, of a transaction.
"formal valuation" <u>(évaluation officielle)</u>	A report of a <i>valuer</i> that contains the <i>valuer's</i> opinion as to the value or range of values of the subject matter of the valuation.
"interested party" <u>(personne intéressée)</u>	The same meaning as used in relevant <i>securities laws</i> .
"prior valuation" <u>(évaluation antérieure)</u>	The same meaning as used in relevant <i>securities laws</i> .
"professional opinion" <u>(avis professionnel)</u>	A <i>formal valuation</i> or a <i>fairness opinion</i> .
"subject transaction" <u>(opération visée)</u>	Transactions including an insider bid, issuer bid, business combinations, or related party transaction as defined in relevant <i>securities laws</i> .
"valuer" <u>(évaluateur)</u>	The person who provides a <i>professional opinion</i> .

4272. Application

- (1) The *Corporation standards* apply only to *professional opinions* that are prepared either:
- (i) pursuant to a requirement of relevant *securities laws*, or
 - (ii) for the express purpose of publication in a *disclosure document* to be filed with any Canadian *securities regulatory authority* or delivered to *security holders* in connection with their consideration of the *subject transaction*.
- (2) The *Corporation standards* do not apply to *professional opinions* that are either:

- (i) rendered in connection with transactions other than the *subject transactions*, whether or not they are reproduced or summarized in a *disclosure document*, or
- (ii) reproduced or summarized in a *disclosure document* in compliance with relevant *securities laws* for the disclosure of *prior valuations* in respect of an issuer.

4273. General requirement

- (1) A *Dealer Member's professional opinion* in connection with a *subject transaction* must comply with the *Corporation standards*.
- (2) A *Dealer Member's compliance* with the *Corporation standards*:
 - (i) must not substitute the professional judgment and responsibility of the *valuer*,
 - (ii) will not be considered compliant if it is not exercised along with professional judgment and responsibility regarding disclosure in a *professional opinion*, and
 - (iii) may not be appropriate if its strict compliance is not justified using professional judgment and responsibility.

4274. General disclosure

- (1) *Professional opinions* prepared in connection with the *subject transactions* must provide disclosure that:
 - (i) enables the directors and *security* holders of the particular issuer to understand the principal judgments and principal underlying reasoning of the *valuer* in its *professional opinion*, and
 - (ii) form a reasoned view on the valuation conclusion or the opinion as to fairness expressed therein.
- (2) In reaching a valuation or fairness conclusion, a *Dealer Member* must consider certain information such as, valuation approach, definition of value, key assumptions. That information is described in Part E of Rule 4200 and may be important and required to be disclosed in a *professional opinion*.
- (3) If the *Dealer Member* receives any expressions of concerns relating to its proposed disclosure in a *professional opinion* that contain competitively or commercially sensitive information regarding an *interested party* or issuer:
 - (i) ~~The~~the *Dealer Member* may seek a decision of the special committee of the issuer's independent directors as to whether the perceived detriment to an *interested party* outweighs the benefit of disclosure of such information to the readers of the *professional opinion*, ~~and~~and
 - (ii) ~~Compliance~~compliance of the *Dealer Member* with any such decision of a special committee will constitute compliance with the *Corporation standards* in respect of the matters that are the subject of the decision.

4275. Disclosure - formal valuations

- (1) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* must disclose the following information:
 - (i) the identity and credentials of the *Dealer Member*, including:

- (a) the general experience of the *Dealer Member* in valuing other businesses in the same or similar industries as the business or issuer in question or similar transactions to the *subject transaction*,
 - (b) the *Dealer Member's* understanding of the specific marketable *securities* involved in the *subject transaction*, and
 - (c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,
- (ii) the date the *valuer* was first contacted in respect of the *subject transaction* and the date that the *valuer* was retained,
- (iii) the financial terms of the *valuer's* retainer,
- (iv) a description of any past, present or anticipated relationship between the *valuer* and any *interested party* or the issuer which may be relevant to the *valuer's* independence for purposes of relevant *securities laws*,
- (v) the subject matter of the *formal valuation*,
- (vi) the effective date of the *formal valuation*,
- (vii) a description of any specific adjustments that have been made in the *valuer's* conclusions by reason of an event or occurrence after the effective date,
- (viii) the scope and purpose of the *formal valuation*, including the following statement:
 - "This formal valuation has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Name of Corporation] but [Name of Corporation] has not been involved in the preparation or review of this formal valuation",
- (ix) a description of the scope of the review conducted by the *valuer*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *valuer*),
- (x) a description of any limitation on the scope of review and the implications of such limitation on the *valuer's* conclusions,
- (xi) a description of the business, assets or *securities* being valued sufficient to allow the reader to understand the valuation rationale and approach and the various factors influencing value that were considered,
- (xii) definitions of the terms of value used in the *formal valuation* including but not limited to "fair market value", "market value" and "cash equivalent value",
- (xiii) the valuation approach and methodologies considered, including:
 - (a) the rationale for valuing the business as a going concern or on a liquidation basis,
 - (b) the reasons for selecting a particular valuation methodology, and
 - (c) a summary of the key factors considered in selecting the valuation approach and methodologies considered,
- (xiv) the key assumptions made by the *valuer*,

- (xv) any distinctive material value that the *valuer* has determined might accrue to an *interested party*, whether this value is included in the value or range of values arrived at for the subject matter of the *formal valuation* and the reasons for its inclusion or exclusion,
 - (xvi) the following discussions or explanations:
 - (a) a discussion of any prior bona fide offers or *prior valuations* or other material expert reports considered by the *valuer* pertaining to the subject matter of the transaction, or
 - (b) if the *formal valuation* differs materially from any such *prior valuation*, an explanation of the material differences where reasonably practicable to do so based on the information contained in the *prior valuation* or, if it is not reasonably practicable to do so, the reasons why it is not reasonably practicable to do so,

and

 - (xvii) the valuation conclusions reached and any qualifications or limitations to which such conclusions are subject.
- (2) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* in connection with a *subject transaction* must disclose the following:
- (i) Annual financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

 - (a) The *professional opinion* must disclose a summary of selected material financial information derived from the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity for the most recently completed fiscal year as well as from the statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in financial position for the immediately preceding fiscal year.
 - (ii) Interim financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

 - (a) The *professional opinion* must disclose a summary of selected material financial information derived from the most recent interim statement of financial position (if any), statement of profit or loss and other comprehensive income and statement of changes in equity for the current fiscal year and the comparable statements for the same interim period of the immediately preceding fiscal year.
 - (iii) Discussion of historical financial statements or financial position
 - (a) The *professional opinion* must include comments on material items or changes in the issuer's financial statements together with appropriate commentary on

items which may have particular relevance to the *professional opinion* including but not limited to unusual capital structures, unrecognized tax-loss carry forwards and redundant assets.

- (iv) Future oriented financial information
 - (a) To the extent that the *valuer* has relied upon future-oriented financial information, the *valuer* must disclose the future-oriented financial information, at least in summary form, unless otherwise determined by a decision of the special committee referred to in section 4274.
 - (b) To the extent that the future-oriented financial information relied upon by the *valuer* varies materially from the future-oriented financial information provided to the *valuer* by the issuer or the *interested party*, the *valuer* must disclose the nature and extent of such differences and the rationale of the *valuer* supporting its judgments.
- (v) Future oriented financial information assumptions
 - (a) To the extent that future-oriented financial information is relied upon (whether or not the future-oriented financial information itself is disclosed), key financial assumptions (such as sales, growth rates, operating profit margins, major expense items, interest rates, tax rates, depreciation rates), together with a brief statement supporting the rationale for each specific assumption, must also be disclosed, unless otherwise determined by a decision of the special committee referred to in section 4274.
- (vi) Economic assumptions
 - (a) Any key economic assumptions having a material impact on the *professional opinion* must be disclosed, noting the authoritative source used by the *valuer*, including interest rates, exchange rates and general economic prospects in the relevant markets.
- (vii) Valuation approach, methodologies and analysis

The *professional opinion* must set out:

 - (a) the valuation approach and methodologies adopted by the *valuer*,
 - (b) together with the principal judgments made in selecting a particular approach or methodology,
 - (c) a comparison of valuation calculations and conclusions arrived at through the different methods considered and the relative importance of each methodology in arriving at the overall valuation conclusion, and
 - (d) the information in clauses 4275(2)(viii) through 4275(2)(xii), if relevant for the valuation techniques used.
- (viii) Discounted cash flow approach
 - (a) The *professional opinion* must include a discussion of all relevant qualitative and quantitative judgments used to calculate discount rates, multiples and capitalization rates.

- (b) If the capital asset pricing model is used, disclosure must include the basis for determining the discount rate including the risk free rate, market risk premium, beta, tax rates and debt to equity capital structure assumed.
 - (c) The *valuer* must also disclose the basis for the determination of the terminal/residual value together with the underlying assumptions made.
 - (d) The source of the financial data which formed the basis of the discounted cash flow analysis, summary of major assumptions (if not already disclosed) and the details and sources of any economic statistics, commodity prices and market forecasts used in the valuation approach must also be disclosed.
 - (e) In addition, a summary of the sensitivity variables considered and the general results of the application of such sensitivity analysis must be disclosed along with an explanation of how such sensitivity analysis was used in the determination of the range of valuation estimates resulting from the discounted cash flow approach.
 - (f) Where the nature of the future-oriented financial information and the subject matter of the valuation make it reasonably practicable and meaningful to do so, selected quantitative sensitivity analyses performed by the *valuer* must be disclosed to illustrate the effects of variations in the key assumptions on the valuation results.
 - (g) In determining whether quantitative sensitivity analyses would be meaningful to the reader of the *professional opinion*, the *valuer* must consider whether such analyses adequately reflects the *valuer's* judgment concerning the inter-relationship of the key underlying assumptions.
- (ix) Asset based valuation approach
- (a) The *professional opinion* must separately disclose the values of each significant asset and liability including off-statement of financial position items (unless otherwise determined by a decision of the special committee referred to in section 4274).
 - (b) If a liquidation based valuation approach has been utilized, the *professional opinion* must set out the liquidation values for each significant asset and liability together with summary estimates for significant liquidation costs.
- (x) Comparable transaction approach
- (a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant transactions involving businesses the *valuer* considers similar or comparable to the business being valued.
 - (b) Adequate disclosure must include the date of the transaction, a brief descriptive note, and relevant multiples implicit in the transaction which may include: earnings before interest and taxes multiples; earnings before interest, taxes, depreciation and amortization multiples; earnings multiples; cash flow multiples; and book value multiples; and take-over premium percentages.
 - (c) In the body of the *professional opinion* there must be a discussion of such transactions together with an explanation as to how such transactions were

used by the *valuer* in arriving at a valuation conclusion with regard to the comparable transaction approach.

- (xi) Comparable trading approach
 - (a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant publicly traded companies the *valuer* considers similar or comparable to the business being valued.
 - (b) Adequate disclosure must include the date of the market data, the relevant fiscal periods for the comparable company, a brief descriptive note regarding the comparable company and relevant multiples implicit in the trading data which may include: earnings before interest and taxes multiples; earnings before interest, taxes depreciation and amortization multiples; earnings multiples, cash flow multiples; and book value multiples.
 - (c) In the body of the *professional opinion* there must be a discussion as to the comparability of such companies, together with an explanation as to how such data was used by the *valuer* in arriving at a valuation conclusion with regard to the comparable trading approach.
- (xii) Valuation conclusions
 - (a) The *valuer* must develop a final valuation range by using a single valuation methodology or some combination of value conclusions determined under different methodologies/approaches.
 - (b) The *professional opinion* must include a comparison of the valuation ranges developed under each methodology and a discussion of the reasoning in support of the *valuer's* final conclusion.

4276. Disclosure - fairness opinion

- (1) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* must disclose the following information:
 - (i) the identity and credentials of the *Dealer Member*, including:
 - (a) the general experience of the *Dealer Member* in providing *fairness opinions* in connection with transactions similar to the *subject transaction*,
 - (b) the *Dealer Member's* understanding of the specific marketable *securities* involved in the *subject transaction*, and
 - (c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,
 - (ii) the date the *Dealer Member* was first contacted in respect of the *subject transaction* and the date that the firm was retained,
 - (iii) the financial terms of the *Dealer Member's* retainer,
 - (iv) a description of any past, present or anticipated relationship between the *Dealer Member* and any *interested party* which may be relevant to the *Dealer Member's* independence for purposes of providing the *fairness opinion*,
 - (v) the scope and purpose of the *fairness opinion*, including the following statement:

"This fairness opinion has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of [Amalco] but [Amalco] has not been involved in the preparation or review of this fairness opinion.",

- (vi) the effective date of the *fairness opinion*,
 - (vii) a description of the scope of the review conducted by the *Dealer Member*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *Dealer Member*),
 - (viii) a description of any limitation on the scope of review and the implications of such limitation on the *Dealer Member's* opinion or conclusion,
 - (ix) a description of the relevant business, assets or *securities* sufficient to allow the reader to understand the rationale of the *fairness opinion* and the approach and various factors influencing financial fairness that were considered,
 - (x) a description of the valuation or appraisal work performed or relied upon in support of the *Dealer Member's* opinion or conclusion,
 - (xi) a discussion of any prior bona fide offer or *prior valuation* or other material expert report considered by the *Dealer Member* in coming to the opinion or conclusion contained in the *fairness opinion*,
 - (xii) the key assumptions made by the *Dealer Member*,
 - (xiii) the factors the *Dealer Member* considered important in performing its fairness analysis,
 - (xiv) the statement of opinion or conclusion as to the fairness, from a financial point of view, of the *subject transaction* and the supporting reasons, and
 - (xv) any qualifications or limitations to which the opinion or conclusion is subject.
- (2) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* in connection with a *subject transaction* must include the following:
- (i) a *fairness opinion* must include:
 - (a) a general description of any valuation analysis performed by the opinion provider, or
 - (b) specific disclosure of a valuation opinion of another *valuer* which is being relied upon,
 - (ii) the *fairness opinion* provider is not required to reach or disclose specific conclusions as to a valuation range or ranges in a *fairness opinion*,
 - (iii) the conclusion section of the *fairness opinion* must include specific reasons for the conclusion that the *subject transaction* is fair or not fair to *security holders*, from a financial point of view, and
 - (iv) support for each of these specific reasons described in clause 4276(2)(iii) must be contained in the body of the *professional opinion* in sufficient detail to allow the reader of the opinion to understand the principal judgments and principal underlying

reasoning of the opinion provider in reaching its opinion as to the fairness of the transaction.

4277. - 4299. Reserved.

RULE 4300 | PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES

4301. Introduction

- (1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

Part A.1 - General segregation requirements

[sections 4311 through 4314]

Part A.2 - Bulk segregation calculation

[sections 4315 through 4319]

Part A.3 ~~– Security and precious metals bullion~~ – Investment products requiring segregation: usage restrictions and correcting segregation deficiencies

[sections 4320 through 4326]

Part A.4 - Minimum segregation policies and procedures

[sections 4327 through 4332]

Part B - Custody and related internal control requirements:

Part B.1 - General custody requirements

[sections 4340 through 4343]

Part B.2 - Acceptable securities locations

[sections 4344 through 4352]

Part B.3 - Written custodial agreement requirement

[sections 4353 and 4354]

Part B.4 - Confirmation and reconciliation requirements

[sections 4355 through 4361]

Part B.5 - Margin requirements

[sections 4362 through 4368]

Part C - Client free credit balance requirements

[sections 4380 through 4386]

4302. - 4309. Reserved.

PART A - SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS

4310. Definitions

- (1) The following terms have the meaning set out below when used in Part A of Rule 4300:

“bulk segregation” <u>(dépôt fiduciaire en bloc)</u>	~~Securities and~~ precious metals bullion <u>and other like assets</u> in segregation for a <i>Dealer Member</i> ’s clients that are not reserved for particular clients.

“net loan value” <u>(valeur de prêt nette)</u>	Of a <i>security</i> means: (i) for a long position, the <i>market value</i> of the <i>security</i> less any margin required, and (ii) for a short position, the <i>market value</i> of the <i>security</i> plus any margin required expressed as a negative number. Of a short <i>security</i> option position means, the <i>market value</i> of the option plus any margin required expressed as a negative number. Of a long precious metals bullion position means, the <i>market value</i> of the precious metals bullion less any margin required.
“qualifying hedge position” <u>(position de couverture admissible)</u>	For all the accounts of each client: (i) a long position in a <i>security</i>, and, (ii) a short position in a <i>security</i> issued or guaranteed by the same issuer of the <i>security</i> in clause (i) of this definition, where: (iii) the long position is convertible to or exchangeable for <i>securities</i> of the same class and number of the <i>securities</i> held in the short position, and (iv) the <i>Dealer Member</i> is using the long position as collateral to cover the short position.
“segregated ~~precious metals bullion~~<u>investment products</u>” ~~“segregated securities”~~ <u>(produits de placement détenus en dépôt fiduciaire)</u>	~~Precious~~<u>Securities, precious</u> metals bullion ~~held in segregation by a Dealer Member for a client.~~ ~~Securities~~<u>and other like assets</u> held in segregation by a <i>Dealer Member</i> for a client.

PART A.1 - GENERAL SEGREGATION REQUIREMENTS

4311. Introduction

- (1) The general *segregation* requirements set out the requirements for a *Dealer Member* to segregate client fully paid and excess margin ~~securities-and~~_z precious metals bullion and other like assets.

4312. Fully paid and excess margin ~~securities and precious metals bullion~~investment products requiring segregation

- (1) A *Dealer Member* holding fully paid or excess margin ~~securities-and~~_z precious metals bullion and other like assets for a client must:
- (i) segregate those ~~securities and precious metals bullion~~_zinvestment products and
 - (ii) identify those ~~securities and precious metals bullion~~_zinvestment products as being held in trust for that client.
- (2) A *Dealer Member* must not use ~~securities and precious metals bullion held in segregation~~_zsegregated investment products for its own purposes except with the express

written approval of its client under the terms of a cash and securities loan agreement as detailed in section 5840.

- (3) The Corporation may prescribe:
- (i) how segregated ~~securities and segregated precious metals bullion~~ investment products are held, and
 - (ii) how the amount or value of ~~securities and segregated precious metals bullion to be segregated~~ segregated investment products must be calculated.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4312 with the following, which, once approved, we will incorporate with the shown adjustments into the DC Rules to replace section 4312:

4312. Fully paid and excess margin ~~securities~~ investment products requiring segregation

- (1) A Dealer Member holding fully paid or excess margin ~~securities~~ precious metals bullion and other like assets for a client must:
 - (i) segregate those ~~securities~~ investment products, and
 - (ii) identify those ~~securities~~ investment products as being held in trust for that client.
- (2) A Dealer Member must not use ~~securities held in segregation~~ segregated investment products for its own purposes except with the written consent of its client under the terms of a written securities loan agreement as detailed in Rule 4600.
- (3) The Corporation may prescribe:
 - (i) how segregated ~~securities~~ investment products are held, and
 - (ii) how the amount or value of ~~securities to be segregated~~ investment products must be calculated.

4313. Restricted and non-negotiable securities

- (1) Securities that are restricted, non-negotiable, or that cannot be made fully negotiable solely by signature or *guarantee* of the Dealer Member are deemed not to be segregated, unless such securities are registered in the name of the client (or name of a person required by the client) on whose behalf they are being held in an acceptable segregation location.

4314. Segregation of client ~~securities and segregated precious metals bullion~~ investment products

- (1) A Dealer Member holding segregated ~~securities and segregated precious metals bullion~~ investment products must:
 - (i) segregate those ~~securities and segregated precious metals bullion~~ investment products in bulk in accordance with sections 4315 through 4319, or as prescribed by the Corporation, or
 - (ii) segregate specific ~~securities and segregated precious metals bullion~~ investment products for each client.
- (2) A Dealer Member must not ~~segregate~~ hold client assets in bulk ~~client securities and segregated precious metals bullion~~ segregation that are subject to a written safekeeping agreement.

PART A.2 - BULK SEGREGATION CALCULATION

4315. Steps for bulk segregation calculation

- (1) A Dealer Member that segregates ~~securities and segregated precious metals~~ bullion investment products in bulk segregation must, in accordance with sections 4316 through 4319:
 - (i) identify in its records the amount and kind of each investment product held for each client.
 - (ii) determine the net loan value and market value of ~~securities and segregated precious metals~~ bullion investment products held in a client's account,
 - (iii) calculate the number of segregated ~~securities and segregated precious metals~~ bullion investment products to be segregated in bulk,
 - (iv) determine the ~~securities and segregated precious metals~~ bullion investment products to use to satisfy segregation requirements, and
 - (v) perform regular calculations and compliance reviews.

4316. Net loan value and market value of ~~securities and precious metals~~ bullion investment products in a client's account

- (1) A Dealer Member holding ~~securities and precious metals~~ bullion investment product positions in bulk segregation must determine for all ~~securities and precious metals~~ bullion investment product positions held for all accounts of each client:
 - (i) the ~~number or quantity of securities and precious metals~~ bullion investment product positions that are part of a qualifying hedge position,
 - (ii) the net loan value of ~~securities and precious metals~~ bullion (excluding ~~securities and precious metals~~ the investment product positions that are eligible for margin (excluding investment product positions that are part of a qualifying hedge position) less the aggregate debit cash balance in accounts (or plus in the case of a credit), and
 - (iii) the market value of ~~securities and precious metals~~ bullion (excluding ~~securities and precious metals~~ the investment product positions that are not eligible for margin (excluding investment product positions that are part of a qualifying hedge position) ~~not eligible for margin~~ less the aggregate amount, if any, by which those accounts are under margined as calculated in clause 4316(1)(ii).
- (2) A Dealer Member must segregate the net loan value of ~~securities and precious metals~~ bullion the investment product positions calculated in clause 4316(1)(ii) and the market value of ~~securities and precious metals~~ bullion investment product positions calculated in clause 4316(1)(iii) for each client account.
- (3) A Dealer Member is not required to segregate an amount of ~~securities and precious metals~~ bullion investment product positions greater than the market value of the ~~securities and precious metals~~ bullion investment products held for those accounts.

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

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

- (i) ~~Equities~~Equity securities

Number of securities required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of one unit of the security)

- (ii) *Debt securities*

Principal amount of securities required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of each \$100 principal amount of the security) x 100, rounded to lowest issuable denomination

4318. Determining ~~securities and precious metals bullion~~segregated investment products to comply with segregation requirements

- (1) A Dealer Member may choose any ~~securities or precious metals bullion~~investment products, other than derivatives, from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid ~~securities or precious metals bullion~~investment products in a cash account be segregated before unpaid ~~securities or precious metals bullion~~investment products.
- (2) A Dealer Member that sells ~~securities or precious metals bullion~~investment products required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.
- (3) ~~Securities or precious metals bullion~~Investment products required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any ~~securities or precious metals bullion~~investment products by that client until settlement or value date.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4318 with the following, which, once approved, we will incorporate with the shown adjustments into the DC Rules to replace section 4318:

4318. Determining ~~securities~~segregated investment products to comply with segregation requirements

- (1) A Dealer Member may choose any investment products, other than derivatives,~~securities~~ from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid ~~securities~~investment products in a cash account be segregated before unpaid investment products~~securities~~.

- (2) A Dealer Member that sells ~~investment products~~~~securities~~ required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.
- (3) ~~Investment products~~~~Securities~~ required to be segregated for a client must not be removed from segregation as a result of the purchase of any ~~investment products~~~~securities~~ by that client until settlement or value date.
- (4) A Dealer Member that borrows or loans securities required to be segregated for a client must keep them segregated until the date the securities are borrowed or loaned.

4319. Frequency and review of bulk segregation calculation

- (1) At least twice weekly, a Dealer Member must determine the ~~securities or precious metals bullion~~~~investment products~~ required to be segregated according to the calculations in Part A.2 of Rule 4300.
- (2) A Dealer Member must conduct a daily review of ~~securities or precious metals bullion segregated~~~~investment products~~ for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the Dealer Member must correct it in accordance with the requirements of sections 4320 through 4326.
- (3) Every day, a Mutual Fund Dealer Member that does not offer margin lending to clients must determine the investment products required to be segregated according to the calculations in Part A.2 of Rule 4300 and ensure that all client investment product positions it receives are segregated.

PART A.3 – ~~SECURITY AND PRECIOUS METALS BULLION~~– INVESTMENT PRODUCTS REQUIRING SEGREGATION: USAGE RESTRICTIONS AND CORRECTING SEGREGATION DEFICIENCIES

4320. General restrictions

- (1) A Dealer Member must:
 - (i) ensure that a segregation deficiency is not knowingly created or increased, and
 - (ii) not deliver ~~securities or precious metals bullion~~~~investment products~~ it holds against payment for the account of any client if those ~~securities or precious metals bullion~~~~investment products~~ are required to satisfy the Dealer Member's segregation requirements.

4321. Correcting segregation deficiencies

- (1) If any segregation deficiency exists, the Dealer Member must promptly take the most appropriate action necessary to correct the deficiency.
- (2) Common deficiencies and appropriate remedial actions include, but are not limited to, those in sections 4322 through 4326.

4322. Call loan segregation deficiency

- (1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the *securities* or precious metals bullion within the *business day* following the day it determines the deficiency exists.

4323. Securities loan segregation deficiency

- (1) A *Dealer Member* that determines it has a *securities* loan *segregation* deficiency must:
 - (i) recall the *securities* from the borrower, or
 - (ii) borrow the same issue of *securities* to cover the deficiency,
 within the *business day* following the day it determines the deficiency exists.
- (2) If the *Dealer Member* has not received the *securities* within five *business days* following the day it determines the deficiency exists, it must undertake to buy-in the *securities*.

4324. Inventory or trading account short position segregation deficiency

- (1) A *Dealer Member* that determines it has an inventory or trading account short position *segregation* deficiency must:
 - (i) borrow the same issue of *securities* to cover the deficiency within the *business day* following the day it determines the deficiency exists, or
 - (ii) undertake to purchase the same issue of *securities* immediately.

4325. Client declared short sales segregation deficiency

- (1) A *Dealer Member* that determines it has a client declared short sale *segregation* deficiency must:
 - (i) borrow the same issue of *securities* to cover the deficiency within the *business day* following the day it determines the deficiency exists, or
 - (ii) undertake to buy-in the same issue of *securities* within five *business days* following the day it determines the deficiency exists.

4326. Fails – client or other Dealer Members

- (1) If a *Dealer Member* has failed to receive ~~securities or precious metals bullion~~investment products within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:
 - (i) borrow the same issue of ~~securities or precious metals bullion~~investment products to cover the deficiency, or
 - (ii) undertake to buy-in the ~~securities or precious metals bullion~~investment products.

PART A.4 - MINIMUM SEGREGATION POLICIES AND PROCEDURES**4327. General**

- (1) A *Dealer Member* must, at a minimum, comply with the policies and procedures for segregated ~~securities and segregated precious metals bullion~~investment products in sections 4328 through 4332 and the supervision requirements in Rule 3900.

4328. Records of segregated ~~securities and precious metals bullion~~investment products

- (1) Segregated ~~securities and segregated precious metals bullion~~investment products must be described as being held in segregation on a Dealer Member's security ~~and~~ precious metals bullion ~~or similar investment product~~ position record (or related records) and client ledger and statement of account. This description must be in substance a fair representation of how the ~~securities and precious metals bullion~~investment products are being held in segregation at the custodian and therefore, the box locations of the Dealer Member must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the Dealer Member.

4329. ~~Twice-weekly report~~Report of items requiring segregation

- (1) ~~A~~With the exception of the situation outlined in subsection 4329(2), a Dealer Member must produce a segregation report at least twice weekly.
- (2) A Mutual Fund Dealer Member that does not offer margin lending to clients must produce a segregation report at least monthly.

4330. Reporting segregation deficiency

- (1) A Dealer Member must set reasonable guidelines so that any material segregation deficiency is reported promptly to the Dealer Member's appropriate Executives.

4331. Authorized employees to move ~~securities and precious metals bullion~~investment products

- (1) A Dealer Member must limit who can move segregated ~~securities and segregated precious metals bullion~~investment products into or out of segregation to only authorized employees.

4332. ~~Daily-supervisory~~Supervisory review of segregation report

- (1) ~~A~~With the exception of the situation outlined in subsection 4332(2), a Dealer Member must do a daily supervisory review of the most recent segregation report produced to identify and correct segregation deficiencies.
- (2) A Mutual Fund Dealer Member that does not offer margin lending to clients must do a monthly supervisory review of the most recent segregation report produced to identify and correct segregation deficiencies.
- (3) A Dealer Member must do a supervisory review or adopt and implement other procedures that provide reasonable assurance the segregation report is complete and accurate.

4333. - 4339. Reserved.

PART B - CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS**PART B.1 - GENERAL CUSTODY REQUIREMENTS****4340. Introduction**

- (1) A Dealer Member takes on certain operational risks when it has custody of ~~securities and~~ precious metals bullion ~~and other like assets~~. These risks arise in connection with the location where and by whom they are held and whether a Dealer Member has adequate internal controls to deal with these risks. Part B of Rule 4300 prescribes Corporation requirements for managing the risks related to ~~securities and precious metals bullion~~the

custody of these types of investment products. As these risks are quantifiable, they are treated as margin charges when calculating *Dealer Member risk adjusted capital*. This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

4341. Definitions

- (1) The following terms have the meaning set out below when used in Part B of Rule 4300:

“external acceptable securities location” <u>(lieu agréé de dépôt de titres externe)</u>	An <i>acceptable securities location</i> for ~~securities-and~~ precious metals bullion <u>and other like assets</u> that are not under a <i>Dealer Member’s</i> physical possession but which are under a <i>Dealer Member’s</i> control.
“internal acceptable securities location” <u>(lieu agréé de dépôt de titres interne)</u>	An <i>acceptable securities location</i> for ~~securities-and~~ precious metals bullion <u>and other like assets</u> that are in a <i>Dealer Member’s</i> physical possession or physical control. <i>Internal acceptable securities locations</i> include acceptable transfer locations.
“set-off risk” <u>(risque de compensation)</u>	The risk exposure resulting when a <i>Dealer Member</i> has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the ~~securities-and precious metals bullion~~ <u>investment products</u> held by the custodian.

4342. Hold ~~securities-and precious metals bullion~~investment products in an acceptable securities location

- (1) A *Dealer Member* must hold ~~securities-and precious metals bullion~~investment products requiring custody, including book-based securities, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as “*acceptable securities locations*”.

4343. Timely deposit

- (1) A *Dealer Member* must deposit ~~securities-and precious metals bullion~~investment products requiring segregation in an *acceptable securities location* on a timely basis.

PART B.2 - ACCEPTABLE SECURITIES LOCATIONS

4344. Acceptable internal storage location

- (1) ~~Securities-and precious metals bullion~~Investment product positions in a *Dealer Member’s* physical possession must be held in an internal storage location that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

4345. Acceptable internal storage location requirements

- (1) A *Dealer Member’s* internal storage location must:
- (i) be subject to ongoing adequate *internal controls* and systems for safeguarding ~~securities-and precious metals bullion~~investment products, and

- (ii) hold all unencumbered ~~securities and precious metals bullion~~investment product positions in the physical possession of the *Dealer Member*.

4346. Acceptable transfer locations

- (1) ~~Securities and precious metals bullion~~Investment products in transfer must be in the possession of a registered or recognized transfer agent and a *Dealer Member* must comply with the applicable confirmation requirements in sections 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

4347. ~~Securities~~Investment product positions not ~~under~~in a *Dealer Member's* physical possession

- (1) ~~Securities and precious metals bullion~~Investment product positions not ~~under~~in a *Dealer Member's* physical possession but which are under a *Dealer Member's* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

4348. Entities that may be external acceptable securities locations

- (1) Entities that may be *external acceptable securities locations* must comply with the *Corporation's* requirements prescribed in Rule 4300 and in Form 1. In Form 1, the entities that may qualify as "*acceptable securities locations*" are grouped into eight categories: depositories and clearing agencies, *acceptable institutions* and subsidiaries of *acceptable institutions*, *acceptable counterparties*, banks and trust companies, mutual funds or their agents, *regulated entities*, foreign institutions and foreign *securities* dealers, and entities considered suitable to hold London Bullion Market Association gold and silver good delivery bars.

4349. Approval of foreign institutions and foreign securities dealers

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

4350. Application to the Corporation for approval of foreign institutions and foreign securities dealers

- (1) A *Dealer Member* must apply in writing to the *Corporation* for review and approval of a foreign institution or foreign *securities* dealer as an *acceptable securities location*.
- (2) Prior to submission to the *Corporation* the application must be approved by the *Dealer Member's* board of directors or by a committee of the *Dealer Member's* board of directors.
- (3) The application to the *Corporation* must include the following:

Document	Contents	Form (if Corporation prescribed)
1. Foreign custodian certificate	1. <i>Dealer Member</i> responses to custodian due diligence questions	In a form satisfactory to the <i>Corporation</i>

Document	Contents	Form (if Corporation prescribed)
	2. Dealer Member certification of approval of foreign custodian as a location for holding ~~securities and precious metals~~ <u>bullion investment products</u>	
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C\$150 million	

4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

- (1) For a foreign institution or foreign *securities* dealer to continue to be an *acceptable securities location*, the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must annually:
 - (i) approve in writing the foreign institution or foreign *securities* dealer, and
 - (ii) complete and sign a foreign custodian certificate for the foreign institution or foreign *securities* dealer.
- (2) The *Dealer Member* must file the foreign custodian certificate with the *Corporation*.
- (3) The annual approval by the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must be given as follows:

Document	Contents	Notes
<i>Dealer Member's</i> board material and foreign custodian certificate	<i>Dealer Member</i> board's or committee of the <i>Dealer Member</i> board's annual written approval of foreign custodian as foreign location for holding ~~securities and precious metals~~ <u>bullion investment products</u>	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination of the <i>Dealer Member</i>

- (4) Without this written approval and filed foreign custodian certificate, the location is a non-acceptable securities location.

4352. Obtaining a client waiver when an external acceptable securities location is unavailable

- (1) If a *Dealer Member* holds investment product positions for a client ~~securities and precious metals~~ bullion in a foreign jurisdiction where:
 - (i) *applicable laws* and circumstances may restrict the transfer of ~~securities and precious metals~~ bullion investment product positions from that jurisdiction, and

- (ii) the *Dealer Member* cannot arrange to hold the client's ~~securities and precious metals bullion~~investment products in the jurisdiction at an *external acceptable securities location*,
the *Dealer Member* must obtain a waiver from the client.
- (2) The client's waiver in approved form must be obtained for each transaction.
- (3) In the waiver, the client must:
 - (i) consent to the arrangement,
 - (ii) acknowledge the risks associated with holding ~~securities and precious metals bullion~~investment products at the specified foreign custodian on behalf of the *Dealer Member* in the specified country, and
 - (iii) waive any claims it may have against the *Dealer Member* and hold the *Dealer Member* harmless if the foreign custodian loses the ~~securities and precious metals bullion~~investment products.
- (4) On obtaining the waiver, a *Dealer Member* may hold those client ~~securities and precious metals bullion~~investment products at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

PART B.3 - WRITTEN CUSTODIAL AGREEMENT REQUIREMENT

4353. Agreement with each external securities location

- (1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:
 - (i) the *Dealer Member* must give prior written consent to any use or disposal of the ~~securities and precious metals bullion~~investment products,
 - (ii) security certificates can be delivered promptly on demand or, if certificates are not available and the *securities* are book-based, must be transferable either from the location or to another *person* at the location promptly on demand,
 - (iii) the ~~securities and precious metals bullion~~investment products are held in segregation for the *Dealer Member* or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian, and
 - (iv) the custodian indemnifies the *Dealer Member* against losses due to the custodian's failure to return any ~~securities, precious metals bullion~~investment products or other property it holds to the *Dealer Member*. However, the custodian's liability is limited to the market value of the ~~securities, precious metals bullion~~investment products and other property at the time it was required to deliver them to the *Dealer Member*.

When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

 - (a) meet standard industry practice,
 - (b) be legally enforceable, and
 - (c) be of sufficient scope and in a form that is acceptable to the *Corporation*.

4354. Bare trustee custodial agreement

- (1) For book-based *security* holdings in which a *Dealer Member* does not have a written custodial agreement with an *external acceptable securities location*, the *Dealer Member* is in compliance with section 4353 if the *Corporation*, as bare trustee for *Dealer Members*, has an approved form of custodial agreement with the custodian.

PART B.4 - CONFIRMATION AND RECONCILIATION REQUIREMENTS**4355. ~~Securities~~Investment products in transit**

- (1) If ~~securities or precious metals bullion~~investment products are in transit between internal storage locations:
 - (i) for which there are no adequate *internal controls* maintained, or
 - (ii) for more than five *business days*,
 those ~~securities or precious metals bullion~~investment products are not considered to be under the *Dealer Member's* control or physical possession for purposes of good segregation.

4356. Confirmations from external acceptable securities locations

- (1) A *Dealer Member* must receive a positive confirmation of all ~~securities or precious metals bullion~~investment product positions annually at its fiscal year-end audit date from each *external acceptable securities location*.
- (2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a ~~securities or precious metals bullion~~investment product position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

4357. Confirmations from transfer locations in Canada

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location in Canada, the *Dealer Member* must receive those *securities* within 20 *business days* of delivery.
- (2) If a *Dealer Member* has not received those *securities* within 20 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 45 *business days* of delivery.
- (3) If the position remains unconfirmed after 45 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4358. Confirmations from transfer locations in the United States

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location in the United States, the *Dealer Member* must receive those *securities* within 45 *business days* of delivery.
- (2) If a *Dealer Member* has not received those *securities* within 45 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 70 *business days* of delivery.

- (3) If the position remains unconfirmed after 70 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4359. Confirmations from transfer locations outside Canada and the United States

- (1) If a *Dealer Member* has delivered *securities* for re-registration to a transfer location outside Canada and the United States, the *Dealer Member* must receive those *securities* within 70 *business days* of delivery.
- (2) If a *Dealer Member* has not received those *securities* within 70 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 100 *business days* of delivery.
- (3) If the position remains unconfirmed after 100 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4360. Confirmations of stock dividends receivable and stock splits

- (1) If a *Dealer Member* has not received the *securities* from a declared stock dividend or stock split within 45 *business days* of the date receivable, the *Dealer Member* must obtain written confirmation of the position receivable.
- (2) If the position remains unconfirmed after 45 *business days*, the *Dealer Member* must transfer the position to its difference account.

4361. Reconcile records for mutual funds and evidences of deposit

- (1) A *Dealer Member* must, at least monthly, reconcile its records of ~~securities~~investment products consisting of mutual funds and evidences of deposit with records provided by the issuing mutual fund or financial institution.

PART B.5 - MARGIN REQUIREMENTS

4362. Acceptable securities location

- (1) For ~~securities or precious metals bullion~~investment products a *Dealer Member* holds at an acceptable securities location, custodial related margin requirements only apply to unresolved differences.

4363. Margin charges – non-acceptable securities location

- (1) For ~~securities~~investment products a *Dealer Member* holds at a non-acceptable securities location, additional margin requirements prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4352.

4364. Non-acceptable internal storage and non-acceptable securities location

- (1) If ~~securities or precious metals bullion~~investment products are:
 - (i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, or
 - (ii) not under a *Dealer Member's* physical possession and are held at a non-acceptable securities location because:

- (a) the location does not meet the criteria for an *internal acceptable securities location* as specified in section 4345, or
- (b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or
- (c) there is no annual written approval of a foreign institution or foreign *securities dealer* as an *acceptable securities location* as specified in section 4351,

then, when it calculates *risk adjusted capital*, a *Dealer Member* must deduct 100% of the market value of the ~~securities or precious metals bullion~~investment products held in custody with the non-acceptable securities location.

4365. No confirmation from location

- (1) ~~Security and precious metals bullion~~investment product positions where the *Dealer Member* has not received:
 - (i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,
 - (ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or
 - (iii) a confirmation of a related stock split or stock dividend under subsection 4360(2)
 are not considered to be under the *Dealer Member's* control or physical possession for purposes of good segregation and must be transferred to a *Dealer Member's* difference account.
- (2) For difference account positions in subsection 4365(1), the *Dealer Member* must:
 - (i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the ~~security and precious metals bullion~~investment product position market value and the normal inventory margin, and
 - (ii) undertake to borrow or buy-in the position pursuant to section 4368.

4366. No written custodial agreement

- (1) If a *Dealer Member* does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an *acceptable securities location*, it must provide margin on the ~~security and precious metals bullion~~investment product positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).
- (2) *Dealer Member* has no set-off risk with the custodian
 - (i) If the *Dealer Member* has no set-off risk with the custodian, in determining its early warning excess and early warning reserve, the *Dealer Member* must deduct as a margin requirement 10% of the market value of the ~~security and precious metals bullion~~investment product positions held in custody at the custodian.
- (3) *Dealer Member* has set-off risk with the custodian
 - (i) If the *Dealer Member* has set-off risk with the custodian, in determining:
 - (a) its *risk adjusted capital*, the *Dealer Member* must deduct as a margin requirement the lesser of:
 - (I) 100% of the set-off risk exposure, and

- (II) 100% of the *market value* of the ~~security and precious metals~~ bullion investment product positions held in custody
- and
- (b) its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement the lesser of:
 - (I) 10% of the *market value* of ~~security and precious metals~~ bullion investment product positions held in custody at the custodian, and
 - (II) 100% of the *market value* of ~~security and precious metals~~ bullion investment product positions held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

4367. Records - reconciliation

- (1) If a *Dealer Member* reconciles its *records* to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4361, the *Dealer Member* must provide margin based on the requirements in Form 1, Statement B, Line 2224, Notes and Instructions for any unresolved differences.
- (2) If a *Dealer Member* does not reconcile its *records* with files or statements received from mutual funds, or financial institutions for evidences of deposit, it must:
 - (i) in determining its *risk adjusted capital*, deduct as a margin requirement for unresolved differences an amount equal to:
 - (a) 10% of the *market value* of the ~~securities~~ investment products, where there have been no transactions in the ~~securities~~ investment products, other than redemptions and transfers, for at least six months and no loan value has been given on the ~~securities~~ investment products, or
 - (b) 100% of the *market value* of the ~~securities~~ investment products,
 - and
 - (ii) undertake to borrow or buy-in the position pursuant to section 4368.

4368. Difference accounts

- (1) A *Dealer Member* must maintain a difference or suspense account to record all ~~security and precious metals~~ bullion investment product positions not received due to unreconcilable differences or errors in any accounts.
- (2) If a *Dealer Member* has not received the ~~security and precious metals~~ bullion investment product positions recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:
 - (i) borrow the ~~security or precious metals~~ bullion investment product position to cover the deficiency, or
 - (ii) undertake to purchase the ~~securities or precious metals~~ bullion investment product immediately.

4369. - 4379. Reserved.

PART C - CLIENT FREE CREDIT BALANCE REQUIREMENTS

4380. Introduction

- (1) Part C of Rule 4300 ~~restricts~~sets our restrictions on a Dealer Member's use of clients' free credit balances in its business, when permitted under the Corporation requirements.

4381. Investment Dealer Member's use of client free credit balances

- (1) ~~A~~An Investment Dealer Member may use its clients' free credit balances in its business only in accordance with ~~Part C of Rule 4300~~sections 4383 to 4386.

4382. Mutual Fund Dealer Member's use of client free credit balances

- (1) A Mutual Fund Dealer Member must keep its clients' cash:
- (i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an acceptable institution, and
 - (ii) separate from other money the Mutual Fund Dealer Member receives.
- (2) Despite subsection 4382(1), a Level 4 Dealer may use its clients' free credit balances in its business if it complies with the:
- (i) minimum capital requirements in sub-clause 4111(3)(i)(f), and
 - (ii) client free credit balance usage limits and excess free credit balance segregation requirements in sections 4383 to 4386 and in Statement F and Schedule 2 of Form 1.

4383. Notation on client account statements

- (1) A Dealer Member that uses client free credit balances within its business and that does not keep its clients' free credit balances:
- (i) segregated in trust for clients in an account with a Canadian financial institution qualifying as an acceptable institution, and
 - (ii) separate from other money the Dealer Member receives, must clearly write the following or equivalent on all statements of account it sends to clients:

“Any free credit balances represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business.”

~~4383~~4384. Calculating usable free credit balances

- (1) A Dealer Member ~~must not use in its business an amount of clients'~~that uses client free credit balances within its business must not use client free credit balances that ~~total~~total more than the greater of:
- (i) general free credit limit:

twelve times the Dealer Member's early warning reserve amount, or
 - (ii) margin lending adjusted free credit limit:

twenty times the Dealer Member's early warning reserve amount for margin lending purposes plus twelve times the remaining early warning reserve amount for all other purposes, where the remaining early warning reserve amount equals the early warning reserve amount minus 1/20th of the total settlement date client margin debit amount.

- (2) A Dealer Member ~~must segregate clients'~~that uses client free credit balances within its business must segregate client free credit balances that are in excess of the amount calculated in subsection ~~4383(1)~~4384(1) either:
- (i) in cash held in trust for clients in a separate account with a Canadian financial institution qualifying as an *acceptable institution*, and this trust property must be clearly identified as such at the *acceptable institution* or
 - (ii) in the following *securities*:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by the following: • national governments of Canada, United Kingdom, and United States • Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government ~~must be a member of the~~ <u>Basel Accord</u> <u>country</u>
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> <i>Securities</i> issued by a provider of capital, as defined in <u>the notes and instructions to Schedule</u>

			<u>14 of</u> Form 1 ~~Schedule 14~~ , are not eligible

~~4384~~4385. Weekly calculation

- (1) At least weekly, but more frequently if required, a *Dealer Member* that uses client free credit balances within its business must calculate the amounts that must be segregated under section ~~4383~~4384.

~~4385~~4386. Daily compliance review and required action

- (1) Every day, a *Dealer Member* that uses client free credit balances within its business must compare the amount of client free credit balances it has segregated to the amount subsection ~~4383~~(2)4384(2) requires to be segregated.
- (2) Every day, a Mutual Fund Dealer Member that does not use client free credit balances within its business must determine the amount that must be segregated under subsection 4382(1).
- ~~(23)~~ A *Dealer Member* must identify and correct any deficiency in amounts ~~of free credit balances~~ required to be segregated under subsections 4382(1) or 4384(2) within ~~five~~one business ~~days~~day following the determination of the deficiency. Where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital when calculating its risk adjusted capital.

~~4386~~4387. Designated trust account

- (1) A Dealer Member must advise, in writing, the financial institution holding client cash segregated in trust pursuant to clause 4382(1)(i) or clause 4384(2)(i) that:
- (i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a "trust account",
 - (ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the Dealer Member, and
 - (iii) the money held in trust may not be used to cover shortfalls in any other accounts of the Dealer Member.

4388. - 4399. Reserved.

RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND ~~SECURITIES~~INVESTMENT PRODUCTS, AND INSURANCE

4401. Introduction

- (1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:
 - Part A - Safekeeping requirements
[sections 4402 through 4407]
 - Part B - Internal controls requirements for safeguarding cash, ~~securities-and,~~ precious metals bullion and other like assets
[sections 4420 through ~~4433~~4434]
 - Part C - Insurance requirements
[sections 4450 through 4468]

PART A - SAFEKEEPING REQUIREMENTS

4402. Introduction

- (1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

4403. Written safekeeping agreement

- (1) A *Dealer Member* with ~~securities-or,~~ precious metals bullion or other like assets held for *safekeeping* must have a written *safekeeping* agreement with each client it holds ~~securities-or-precious metals bullion~~those investment products for.

4404. ~~Securities~~Keep assets free from encumbrance

- (1) A *Dealer Member* must keep ~~securities-or,~~ precious metals bullion or other like assets held for *safekeeping* free from any encumbrance.

4405. Procedures to keep ~~securities~~assets apart

- (1) A *Dealer Member* must keep ~~securities-or,~~ precious metals bullion or other like assets held for *safekeeping* separate from all other positions and must have procedures in place to ensure this separation.

4406. Identifying ~~securities~~assets held for safekeeping in records

- (1) A *Dealer Member* must specifically identify and record ~~securities-or,~~ precious metals bullion or other like assets held for *safekeeping* in its ~~securities-or,~~ precious metals bullion or similar investment product position records and client's ledger and statement of account.

4407. Release of ~~securities~~assets held in safekeeping

- (1) A *Dealer Member* may release ~~securities-or,~~ precious metals bullion or other like assets held for *safekeeping* to others only when the client so instructs.

4408. - 4419. Reserved.

PART B - INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH, SECURITIES-~~AND~~, PRECIOUS METALS BULLION AND OTHER LIKE ASSETS

4420. Introduction

- (1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

4421. Safeguarding client and Dealer Member cash, securities-~~and~~, precious metals bullion and other like assets

- (1) A *Dealer Member* must safeguard its clients' and its own cash, securities-~~and~~, precious metals bullion and other like assets:
 - (i) to protect them against material loss, and
 - (ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis.
- (2) A *Dealer Member's* policies and procedures must specifically address the minimum requirements for safeguarding cash, securities-~~and~~, precious metals bullion and other like assets as described in sections 4422 through 4433.
- (3) The *Corporation* recognizes that a *Dealer Member* with a small operation may be unable to comply with Rule 4400 requirements to segregate duties. If these minimum requirements are inappropriate because of a *Dealer Member's* small size, it must implement alternative control procedures that the *Corporation* approves.

4422. Receipt and delivery of securities-~~and~~, precious metals bullion and other like assets

- (1) *Employees* who receive and deliver physical securities-~~and~~, precious metals bullion and other like assets must not have access to the *Dealer Member's* securities-~~and~~, precious metals bullion or similar investment product records.
- (2) The *Dealer Member* must handle securities-~~and~~, precious metals bullion and other like assets in a restricted and secure area.
- (3) The receipt and delivery of securities-~~and~~, precious metals bullion and other like assets must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers).
- (4) A *Dealer Member* using mail service must send negotiable certificates by registered mail.
- (5) A *Dealer Member* must obtain signed receipts from the client or agent for all securities ~~and~~, precious metals bullion and other like assets not delivered against payment.

4423. Restricting access to securities, precious metals bullion and other like assets

- (1) Only designated *employees* may physically handle securities, precious metals bullion or other like assets.
- (2) Securities, precious metals bullion and other like assets must be physically handled only in a restricted and secure area.
- (3) Only *employees* not involved in maintaining or balancing *Dealer Member records* may handle physical securities, precious metals bullion or other like assets.

4424. Clearing

- (1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.
- (2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.
- (3) A *Dealer Member* must take prompt action to correct differences in its *records*.
- (4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.
- (5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.
- (6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:
 - (i) a margin account agreement, or
 - (ii) a cash and *security* loan agreement,
 that has been executed in accordance with *Corporation requirements*.
- (7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4424 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4424:

4424. Clearing

- (1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.
- (2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.
- (3) A *Dealer Member* must take prompt action to correct differences in its *records*.
- (4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.
- (5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.
- (6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written consent from, and provided appropriate collateral to, the client pursuant to:
 - (i) a margin account agreement, or
 - (ii) a *securities loan* agreement,
 that has been executed in accordance with *Corporation requirements*.
- (7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

4425. Protecting securities~~-and,~~ precious metals bullion and other like assets

- (1) A *Dealer Member* must assess the risk of any location that holds securities~~-of,~~ precious metals bullion or other like assets for it and for the accounts of its clients.
- (2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository records (for instance, transfers between the "free" and "seg" boxes).
- (3) At least monthly, a *Dealer Member* must reconcile its records of security, precious metals bullion and other like asset positions to the custodian's records where the positions are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.
- (4) A *Dealer Member* must have a proper written custody agreement with each custodian where securities~~-and,~~ precious metals bullion and other like assets are held for it or for the accounts of its clients and for which the Dealer Member is responsible.

4426. How to handle security, precious metals bullion and similar investment product records

- (1) Employees maintaining and balancing securities~~-and,~~ precious metals bullion and similar investment product records must not be involved in handling physical securities~~-and,~~ precious metals bullion and other like assets.
- (2) A *Dealer Member* must promptly update its securities~~-and,~~ precious metals bullion and similar investment product records to reflect changes in location and ownership of securities~~-and,~~ precious metals bullion and other like assets under its control.
- (3) Journal entries made to securities~~-and,~~ precious metals bullion and similar investment product records must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

4427. Rules for counting securities, precious metals bullion and other like assets

- (1) At least once a year, a *Dealer Member* must count physical securities~~-and,~~ precious metals bullion and other like assets held:
 - (i) in segregation, and
 - (ii) for safekeeping,
 in addition to its annual external audit physical securities~~-and,~~ precious metals bullion and other like assets count.
- (2) At least monthly, a *Dealer Member* must count physical securities~~-and,~~ precious metals bullion and other like assets held in current boxes.
- (3) Only employees who do not handle securities~~-and,~~ precious metals bullion and other like assets may conduct physical securities~~-and,~~ precious metals bullion and other like assets counts.
- (4) Count procedures must include all physical securities~~-and,~~ precious metals bullion and other like assets held in the box location subject to the count and must simultaneously verify related positions such as positions in transit or in the process of being transferred.
- (5) During a physical securities~~-and,~~ precious metals bullion and other like assets count, both the description of the securityasset and the quantity must be compared to the *Dealer*

Member's records. Any discrepancies must be investigated and corrected promptly. Positions not reconciled within a reasonable period must be promptly reported to the Dealer Member's appropriate Executives and accounted for.

4428. Moving certificates, securities ~~and~~, precious metals bullion and other like assets between branches

- (1) A *Dealer Member* must record the location of certificates in transit between its offices in separate transit accounts on its *security position records*. The *Dealer Member* must reconcile these accounts monthly.
- (2) When securities ~~or~~, precious metals bullion or other like assets are in transit, a *Dealer Member* must book out the securities ~~or~~, precious metals bullion or other like assets from the branch account and book them into the transit account. When the securities ~~or~~, precious metals bullion or other like assets are physically received at a branch, the *Dealer Member* must book them out of the transit account and into the receiving branch's account.
- (3) The receiving branch must check securities ~~or~~, precious metals bullion or other like assets received against the accompanying transit sheet.
- (4) The methods of transportation a *Dealer Member* chooses for securities ~~or~~, precious metals bullion or other like assets in transit must:
 - (i) comply with insurance policy terms, and
 - (ii) take into account the value, negotiability, urgency, and cost factors.

4429. Transferring securities

- (1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.
- (2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name. Only fully-paid *securities* (new issues excepted) may be transferred into a name other than the *Dealer Member's* name.
- (3) The transfer department may carry out transfers only when it receives a properly authorized request.
- (4) A *Dealer Member's security position record* must record, and name them as, "securities out for transfer".
- (5) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.
- (6) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.
- (7) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4429 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4429:

4429. Transferring securities

- (1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.
- (2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name.
- (3) Only fully paid *securities* may be transferred into a name other than the *Dealer Member's* name, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.
- (4) The transfer department may carry out transfers only when it receives a properly authorized request.
- (5) A *Dealer Member's security position record* must record, and name them as, "securities out for transfer".
- (6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.
- (7) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.
- (8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

4430. Re-organization

- (1) A *Dealer Member* must have a formal procedure to identify and record the timing and terms of all issuances such as forthcoming rights and offers.
- (2) A *Dealer Member* must have a clear method of communicating upcoming re-organization activities to the sales force. These include deadlines for submitting special instructions in writing and any special handling procedures required for key dates.
- (3) An authorized *employee* or department must have clear responsibility for organizing and handling each offer.
- (4) A *Dealer Member* must clearly define procedures to balance positions daily and to physically control *securities*.
- (5) A *Dealer Member* must regularly reconcile and review suspense accounts involving offers and splits.

4431. Handling dividends and interest

- (1) A *Dealer Member* must have a system to record the total dividends and interest payable and receivable at due date.
- (2) Dividend and interest record keeping *employees* must not handle cash or authorize payments.
- (3) At least monthly, a *Dealer Member* must:
 - (i) reconcile dividend and interest accounts, and

- (ii) review aged dividend receivables.
- (4) Only the department manager or another appropriate manager may authorize dividend and interest write-offs.
- (5) The department manager or another appropriate manager must approve journal entries to and from dividend and interest accounts.
- (6) *A Dealer Member*:
 - (i) must not pay dividend claims, other than as part of an automatic settlement system, unless accompanied by supporting documents such as proof of registration, and
 - (ii) must compare supporting documents with internal *records* for validity and then have the department manager or another appropriate manager approve them.
- (7) *A Dealer Member* must withhold non-resident tax when required by law.
- (8) Where required by *applicable laws*, a *Dealer Member* must ensure client income is appropriately reported for income tax purposes.

4432. Reconciling internal accounts

- (1) At least monthly, a *Dealer Member* must reconcile internal accounts.
- (2) A department manager or another appropriate manager must review the reconciliation.

4433. Cash

- (1) The department manager or another appropriate manager must review and approve all bank reconciliations.
- (2) At least monthly, a *Dealer Member* must reconcile bank accounts in writing, identifying and dating all reconciling items.
- (3) Journal entries to clear reconciling items must be made on a timely basis and approved by a department manager or another appropriate manager.
- (4) Bank accounts must be reconciled by *employees* who do not have:
 - (i) access to funds, either receipts or disbursements, or
 - (ii) access to ~~security, precious metals bullion or derivative~~investment product positions, or
 - (iii) record keeping responsibilities that include the authority to write or approve journal entries.
- (5) An appropriate *Executive* must establish criteria for approving the requisition of a cheque.
- (6) Cheques must be pre-numbered, and a *Dealer Member* must account for numerical continuity.
- (7) Blank cheques are properly safeguarded.
- (8) Cheques must be signed by two authorized *employees*.
- (89) The authorized *employees* must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque.
- (910) A *Dealer Member* must limit and supervise access to any facsimile signature machine.

- (11) A Dealer Member must limit the number of authorized employees permitted to withdraw funds from the bank accounts, including by way of electronic transfer.

4434. Trust accounts for client funds

- (1) A Mutual Fund Dealer Member that does not use client free credit balances within its business must record all client cheques upon receipt and deposit the cheques to the trust account on the day of receipt. The Mutual Fund Dealer Member may deposit the cheque the following business day, if the cheque is received after normal business hours.
- (2) A Mutual Fund Dealer Member that does not use client free credit balances within its business must balance deposits to the trust account daily against deposit records, receivable records and mutual fund settlement records.
- (3) A Mutual Fund Dealer Member that does not use client free credit balances within its business must segregate interest received that is payable to clients in respect of cash held in trust for clients in accordance with subsection 4382(1).

4435. - 4449. Reserved.

PART C - INSURANCE REQUIREMENTS

4450. Introduction

- (1) Part C of Rule 4400 requires a *Dealer Member* to have enough insurance to protect against potential losses from theft, fraudulent acts, and other losses.

4451. Definitions

- (1) The following terms have the meanings set out below when used in Part C of Rule 4400:

“base amount” <u>(montant de base)</u>	The greater of: (i) the aggregate client net equity for all client accounts, where net equity for each client is the ~~excess, if any, of the total~~<u>net</u> value of cash, securities, ~~derivatives~~, precious metals bullion; and other ~~acceptable property~~<u>investment products held or controlled by</u> the Dealer Member ~~owes to the client over the total value of cash; securities, derivatives, precious metals bullion; and other acceptable property the client owes to the Dealer Member~~<u>on behalf of clients</u>, and (ii) the ~~aggregate Dealer Member liquid and other's~~ <u>total</u> allowable assets calculated in accordance with Form 1, Statement A.
“other acceptable property”	~~The same meaning as set out in Schedule 10 of Form 1.~~
“standard form financial institution bond” <u>(police d'assurance des institutions financières standard)</u>	The standard form of Financial Institution Bond insurance coverage a Dealer Member must obtain.

4452. Dealer Member must have insurance

- (1) A *Dealer Member* must have and maintain insurance:
 - (i) against the types of loss, and
 - (ii) with at least the minimum amount of coverage, as prescribed in Part C of Rule 4400.

4453. Qualified insurance carriers

- (1) A *Dealer Member* must obtain and maintain insurance underwritten by either:
 - (i) an insurer registered or licensed under the laws of Canada or a province of Canada, or
 - (ii) a foreign insurer the *Corporation* has approved.

4454. Foreign insurers

- (1) To obtain *Corporation* approval, a foreign insurer must:
 - (i) have a minimum net worth of \$75 million on its last audited statement of financial position,
 - (ii) have financial information acceptable to, and available for inspection by, the *Corporation*, and
 - (iii) satisfy the *Corporation* that it is subject to supervision by regulatory authorities in its incorporation jurisdiction that is substantially similar to a Canadian insurance company's supervision.

4455. Mail insurance

- (1) A *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable *securities* by registered mail.
- (2) If a *Dealer Member* delivers a written promise to the *Corporation* that it will not use registered mail for outgoing shipments of *securities*, the *Corporation* ~~may exempt the *Dealer Member* from the requirement~~ is not required to have the mail insurance set out in subsection 4455(1).

4456. Financial institution bond

- (1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:
 - (i) **Fidelity** - Any loss, including loss of property, from a dishonest or fraudulent act of a *Dealer Member's* employees:
 - (a) committed anywhere, and
 - (b) committed alone or with others.
 - (ii) **On premises** - Any loss of money, *securities*, precious metals bullion, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of:
 - (a) the insured's offices,
 - (b) a banking institution's offices,

- (c) a clearing house, or
 - (d) a recognized place of safe-deposit,
- all as defined in the *standard form financial institution bond*.
- (iii) **In transit** - Any loss of money and negotiable or non-negotiable *securities*, precious metals bullion or other property, while in transit. The value of *securities*, precious metals bullion in transit in an *employee's* or *agent's* custody must not exceed the protection under this clause. In transit coverage must be calculated on a dollar for dollar basis. A *Dealer Member* must provide, for *Corporation* approval, a list of exceptions to the money, *securities*, precious metals bullion, or other property protected under this clause.
 - (iv) **Forgery or alterations** - Any loss through forgery or alteration of any:
 - (a) cheques,
 - (b) drafts,
 - (c) promissory notes, or
 - (d) other written orders or directions to pay sums in money,
 excluding *securities*, as defined in the *standard form financial institution bond*.
 - (v) **Securities** - Any loss:
 - (a) through the purchase, acquisition, sale, delivery, extension of credit, or action on *securities* or other written instruments which prove to have been:
 - (I) forged,
 - (II) counterfeited,
 - (III) raised or altered, or
 - (IV) lost or stolen,
 or
 - (b) due to having guaranteed in writing or having witnessed any signatures on any transfers, assignments or other documents or written instruments, as defined in the *standard form financial institution bond*.

4457. General minimum ~~Minimum~~ insurance requirement ~~requirements~~

- (1) Level 1, 2 and 3 Dealers and Investment Dealer Members that are Type 1 introducing brokers must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$200,000, and
 - (ii) ½% of the base amount,provided that the minimum amount need not exceed \$25,000,000 for each clause.
- (2) Investment Dealer Members that are Type 2 introducing brokers must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:
 - (i) \$500,000, and
 - (ii) ½% of the base amount,provided that the minimum amount need not exceed \$25,000,000 for each clause.

~~(13)~~ Level 4 Dealers and Investment Dealer Members that are self ~~Self-clearing and/or~~ Type 3 ~~and Type~~ or 4 introducing brokers must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) \$500,000, and

(ii) 1% of the *base amount*,

provided that the minimum amount need not exceed \$25,000,000 for each clause.

4458. Minimum insurance requirement for certain introducing brokers

~~(1) Type 1 and Type 2 Introducing brokers must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:~~

~~(i) \$200,000 for a Type 1 introducing broker arrangement or \$500,000 for Type 2 introducing broker arrangement, and~~

~~(ii) ½% of the base amount,~~

~~provided that the minimum amount need not exceed \$25,000,000 for each clause~~ Reserved.

4459. Double aggregate limit

(1) A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

4460. Calculating minimum insurance requirement and risk adjusted capital provisions

(1) Every month, a *Dealer Member* must calculate its required minimum insurance coverage and file Schedule 102 of Form 1 with its *monthly financial report*.

(2) In calculating minimum insurance coverage requirements, a *Dealer Member* must treat non-negotiable and negotiable form *securities* as the same.

(3) When calculating its *risk adjusted capital* amount, a *Dealer Member* must provide capital for the amount of its insurance deductible.

4461. Correction of insufficient coverage

(1) If a *Dealer Member* has less coverage than the calculated minimum insurance requirement coverage and the deficiency:

(i) is less than 10% of the minimum insurance requirement, the *Dealer Member* must correct the deficiency within two months of the filing date of the *monthly financial report* within which the deficiency was reported, or

(ii) is 10% or more of the insurance requirement, the *Dealer Member* must promptly notify the *Corporation* and correct the deficiency within 10 days of identifying it.

4462. Global financial institution bonds

(1) If a *Dealer Member* maintains insurance under Part C of Rule 4400 that names the insured as, or that benefits, the *Dealer Member* and any other *person*, then:

(i) the *Dealer Member* must have the right to claim directly against the insurer for losses, and payment or satisfaction of losses must be made directly to the *Dealer Member*, and

- (ii) the individual or aggregate limits under the *standard form financial institution bond* may only be affected by claims made by or for:
 - (a) the *Dealer Member*,
 - (b) the *Dealer Member's subsidiaries* whose financial results are consolidated with the *Dealer Member's*, or
 - (c) the *Dealer Member's holding company*, if the *holding company* does not carry on any business or own any investments other than its interest in the *Dealer Member*.

This applies no matter what the claims, experience, or any other factor that refers to any other *person*.

4463. Notify the Corporation of underwriter insurance termination

- (1) A *Dealer Member's standard form financial institution bond* and mail insurance policies must require the underwriter to notify the *Corporation* at least 30 days before the underwriter terminates or cancels insurance coverage.

4464. When insurance ends due to take-over

- (1) A *Dealer Member* taken over by another entity must ensure it has *standard form financial institution bond* coverage for 12 months from the date of the take-over to cover discovery of any losses it had before the take-over date.
- (2) The *Dealer Member* must ensure that any additional premium is paid.

4465. Notify the Corporation of claims

- (1) A *Dealer Member* must give written notice to the *Corporation* within two *business days* of reporting a claim to the insurer or its authorized representative.

4466. Board of directors' review and designation

- (1) A *Dealer Member's* policies and procedures must require its board of directors or the executive committee of the *Dealer Member's* board of directors to:
 - (i) review and approve the insurance requirements and level of coverage at least annually, and
 - (ii) designate an appropriate *Executive* to be responsible for insurance matters.

4467. Executive review

- (1) A *Dealer Member's* policies and procedures must require the *Executive* responsible for insurance matters:
 - (i) review regularly the terms of the *Dealer Member's* insurance policies and design of the *Dealer Member's* operating procedures so that the *Dealer Member* is in compliance with those terms,
 - (ii) monitor business changes and evaluate the need for changes in coverage or operating procedures, and
 - (iii) monitor business operations so that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.

4468. Executive prompt action

- (1) A *Dealer Member's* policies and procedures must require the appropriate *Executive* to:
 - (i) take prompt action to avert or remedy any projected or actual insurance deficiency, and
 - (ii) notify the *Corporation* immediately of any deficiencies, pursuant to clause 4461(1)(ii).

4469. - 4499. Reserved.

RULE 4500 | FINANCING ARRANGEMENTS - REPURCHASE MARKET TRADING PRACTICES

4501. Introduction

- (1) Rule 4500 sets out a standard set of trading practices to increase the transparency of the *repurchase agreement* or *reverse repurchase agreement* markets and to promote liquidity and efficiency in the markets.

4502. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4500:

“best efforts” <u>(au mieux)</u>	A <i>repurchase agreement</i> or <i>reverse repurchase agreement</i> trade where the buyer assumes the risk that the seller cannot deliver the <i>securities</i> within the specified time.
“CDSX” <u>(CDSX)</u>	The CDS clearing and settlement system comprising the Depository Service and the Settlement Service.
“forward repo” <u>(pension sur titres à terme)</u>	A <i>repurchase agreement</i> or <i>reverse repurchase agreement</i> trade that settles later than next day.
“general collateral” <u>(garantie générale)</u>	Government of Canada <i>debt</i> that is CDSX eligible, including real-return bonds and strips (residuals and coupons). For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date.
“inter-dealer broker” <u>(courtier intermédiaire)</u>	An organization that provides clients information, electronic trading and communications services for trading in wholesale financial markets.
“odd-lot” <u>(lot irrégulier)</u>	A lot less than \$25 million for either: (i) overnight and term <i>general collateral</i> , or (ii) specials, both term and overnight.

4503. General

- (1) A *Dealer Member* trading in the *repurchase agreement* or *reverse repurchase agreement* market that does not include all necessary terms about sales and set-offs in an agreement with the other party must make a capital adjustment as set out in Form 1.

4504. Marking to market

- (1) Unless otherwise agreed by the parties, a *Dealer Member* must periodically review its margins to ensure that they are still appropriate for the maturity dates.
- (2) Unless otherwise agreed by the parties, a *Dealer Member* that wants to mark-to-market its counterparties must do so by 11:30 a.m. The mark-to-market must be done on a net basis and not done by issue.
- (3) If the parties cannot agree on a price, the current mid-market prices must be used to determine the mark-to-market price. A *Dealer Member* must use the composite prices on an *inter-dealer broker’s* screen to determine mid-market price.

- (4) A *Dealer Member* must maintain margin through margin calls and not through substitutions.
- (5) Cash and collateral considerations:
 - (i) unless the parties agree otherwise, all dealer-to-dealer margin calls must be met with the transfer of cash or collateral,
 - (ii) if a *Dealer Member* chooses to meet the margin call with cash, the cash must not be used to change the economic nature of the trade. The cash will bear interest at the rate agreed between the parties,
 - (iii) if a *Dealer Member* chooses to meet a margin call using collateral, the collateral must have characteristics similar to or better than the *security* being repurchased or resold, be reasonably acceptable to the other party and be applied on a reasonable basis, and
 - (iv) a *Dealer Member* may deliver a maximum of one piece of collateral per million dollars.
- (6) A *Dealer Member* that wishes to substitute previously margined collateral must do so by 11:30 a.m.

4505. Forward repo trade confirmations

- (1) A *Dealer Member* must send the client a confirmation of all *forward repo* trades on the trade date of the trade agreement.
- (2) In addition to the disclosures set out in section 3816, the written confirmation must contain, at a minimum, the:
 - (i) money or par amount, as applicable,
 - (ii) start date,
 - (iii) end date,
 - (iv) interest rate,
 - (v) collateral type, and
 - (vi) any substitution rights.
- (3) All *forward repo* trades must be confirmed on the CDSX system.

4506. Obligation to make coupon payments

- (1) A *repurchase agreement* or *reverse repurchase agreement* seller must receive payment from the *repurchase agreement* or *reverse repurchase agreement* buyer of any income on the *securities* that the seller would have been entitled to if it had not entered the *repurchase agreement* or *reverse repurchase agreement* transaction.
- (2) A *repurchase agreement* or *reverse repurchase agreement* buyer does not need to transfer an amount equal to the income payment to the *repurchase agreement* or *reverse repurchase agreement* seller, but can apply it to reduce the amount transferred to the *repurchase agreement* or *reverse repurchase agreement* buyer at the end of the transaction. All *repurchase agreements* or *reverse repurchase agreements* are priced this way, unless otherwise agreed.

4507. Substitutions

- (1) A *repurchase agreement* or *reverse repurchase agreement* purchaser does not need to accept collateral substitutions unless it agreed to do so before the transaction.
- (2) Collateral passed for an overnight or term trade may be substituted on a *best efforts* basis only.

4508. General collateral repurchase agreement or reverse repurchase agreement allocations

- (1) *General collateral* transactions in the *repurchase agreement* or *reverse repurchase agreement* market are allocated based on the type of transaction. The general allocation methods for cash settlements, forward settlements and replacement transactions when substitutions occur are set out in section 4508.
- (2) Money-fill basis:
 - (i) *general collateral* transactions are completed on a money-fill basis as explained in clause 4508(2)(ii), unless otherwise agreed,
 - (ii) a transaction executed on a money-fill basis means that the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocations will be no more than two issues to make \$50 million, and
 - (iii) clause 4508(2)(ii) applies to cash trades, forward settlements and substitutions.
- (3) If a transaction is executed on a par basis:
 - (i) the allocated amount must equal the par amount for cash and forward settlements, and
 - (ii) for substitutions, the replacement transaction must be done on the basis of the par amount originally transacted.
- (4) *Special repurchase agreement* or *reverse repurchase agreement* trades must be done on a par basis.

4509. Confidentiality

- (1) Subject to subsection 4509(3), all *Dealer Members* and *inter-dealer brokers* must maintain the confidentiality of the names of the parties to a trade.
- (2) *Dealer Members* and *inter-dealer brokers* must not ask questions to try to discover the identity of a party.
- (3) Certain information may be disclosed as follows:
 - (i) for a trade that is done through an *inter-dealer broker*, a *Dealer Member* may disclose the identity of a party to only counterparties to the trade after the trade is completed,
 - (ii) an *inter-dealer broker* may inform a *Dealer Member* that it does not have a line of credit with the other party to the trade before a market is made, as long as it does not give any other information about that party,
 - (iii) for a name “give up” trade, the full names of parties must be disclosed to counterparties to the trade at the time of the trade to ensure that *Dealer Members* follow proper credit procedures, and

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- (iv) subsections 4509(1) and 4509(2) do not prevent *Dealer Members* or *inter-dealer brokers* from asking or answering questions to determine the size of the bid or offer.

4510. - 4599. Reserved.

RULE 4600 | FINANCING ARRANGEMENTS - CASH AND SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

- (1) Rule 4600 covers requirements for cash and *securities* loan, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions and includes:
 - (i) definitions,
 - (ii) general requirements,
 - (iii) written agreement requirement,
 - (iv) cash and *securities* loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty*,
 - (v) cash and *securities* loans between *regulated entities*, and
 - (vi) cash and *securities* loans with other counterparties.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rules section 4601 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4601:

4601. Introduction

- (1) Rule 4600 covers requirements for *cash loans*, *securities loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions.
- (2) Rule 4600 is divided into the following parts:
 - Part A – Definitions and General Requirements
[sections 4602 – 4609]
 - Part B – Specific Requirements
 - Part B.1 - Financing arrangements with certain counterparties
[section 4610- 4619]
 - Part B.2 - Borrowing retail clients fully paid and excess margin *securities*
[section 4620 – 4630]

4602. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4600:

“overnight cash loan agreement” (convention de prêt d’espèces à un jour)	An oral or written agreement under which a <i>Dealer Member</i> deposits cash with another <i>Dealer Member</i> for up to two <i>business days</i> .
“Schedule I chartered bank” (banque à charte de l’annexe I)	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars (\$1,000,000,000) or more at the time of the <i>securities</i> loan transaction.

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4602 with the following, which, once approved, we will incorporate as is into the DC Rules to replace section 4602:

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

- (1) The following terms have the meaning set out below when used in Rule 4600:

“financing arrangement” <i>(financement)</i>	A cash loan, a securities loan, a repurchase agreement, or a reverse repurchase agreement.
“overnight cash loan agreement” <i>(convention de prêt d'espèces à un jour)</i>	An oral or written cash loan agreement under which a Dealer Member deposits cash with another Dealer Member for up to two business days.
“Schedule I chartered bank” <i>(banque à charte de l'annexe I)</i>	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars (\$1,000,000,000) or more at the time of the cash loan or securities loan transaction.

4603. General requirements

(1) Marking to market

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

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule clause 4603(1)(i) with the following, which, once approved, we will incorporate into the DC Rules to replace clause 4603(1)(i):

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

(2) Record transactions

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

(3) Loan accounts

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

In CIRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule subsection 4603(3) with the following, which, once approved, we will incorporate into the DC Rules to replace subsection 4603(3):

(3) Loan accounts

- (i) A Dealer Member must keep Dealer Member financing arrangement accounts separate from Dealer Member securities trading accounts.

- (ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from client *securities* trading accounts.

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

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

(5) **Buy-ins**

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

4604. Written agreement requirement

- (1) If a *Dealer Member* has a cash and *securities* loan agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in section 5840.
- (2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the *securities* at any time.
- (3) If a *Dealer Member* does not have a written agreement for a *securities* loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.

In CISO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4604 with the following, which, once approved, we will incorporate into the DC Rules to replace section 4604:

4604. Written agreement requirements

- (1) When a *Dealer Member* enters into a *financing arrangement* agreement, other than an *overnight cash loan agreement*, that agreement must be in writing and contain the minimum provisions described in this section.
- (2) The agreement must:
 - (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,
 - (ii) set out events of default,
 - (iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,
 - (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and
 - (v) either:
 - (a) give the parties the right to set off their mutual debts, or

- (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.
- (3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.
- (4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:
 - (i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or
 - (ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*
 to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.
- (5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and [79](#).
- (6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

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

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

4606. Cash and securities loans between regulated entities

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

4607. Cash and securities loans with other counterparties

- (1) When a cash or *securities* loan is between a *Dealer Member* and a party to which neither section 4605 nor 4606 applies, a *Dealer Member* must comply with subsections 4607(2) and 4607(3).
- (2) *Securities* pledged as collateral must:
 - (i) be held by:
 - (a) the *Dealer Member* in *segregation*,
 - (b) an *acceptable clearing corporation*, or
 - (c) a bank or trust company that is either an *acceptable institution* or an *acceptable counterparty* under an escrow agreement. The escrow agreement

must be between the *Dealer Member* and the depository, institution, or counterparty and must be in a form acceptable to the *Corporation*,

- (ii) either:
 - (a) be *securities* with a margin rate of 5% or less, or
 - (b) be preferred shares or *debt securities*, convertible into common shares of the class borrowed.
- (3) If a *Dealer Member* does not comply with subsection 4607(2) or clause 4603(3)(i), its *net allowable assets* are subject to a charge calculated in the same manner as for client account short *securities* balances.

4608. - 4699. Reserved.

In CRO Bulletin 24-0067, we propose repealing and replacing the IDPC Rule section 4605 to 4607 with the following, which, once approved, we will incorporate into the DC Rules to replace sections 4605 to 4607:

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities

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

4611. - 4619. Reserved.

In CRO Bulletin 24-0067, we propose adding into the IDPC Rule 4600 the following new sections, which, once approved, we will incorporate into the DC Rule 4600:

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

- (1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:
 - (i) *retail clients*, or
 - (ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

- (1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:
 - (i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and
 - (ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with

Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

- (1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:
 - (i) the rights and responsibilities of each party to the agreement, including:
 - (a) the parties right to terminate the loan at any time upon prior notification
 - (b) the client's right to sell the loaned *securities* in a normal course of business,
 - (c) the client's right to the collateral in the event of the *Dealer Member's* default, including the *Dealer Member's* failure to recall the loaned *securities* within stipulated timeframes, and
 - (d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,
 - (ii) events of default,
 - (iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

- (1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:
 - (i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and
 - (ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.
- (2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

- (1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.
- (2) The collateral can be cash or, when so permitted by the *Corporation*, debt *securities* with a margin rate of 5% or less.
- (3) The collateral value must at a minimum equal:
 - (i) 102% of the market value of the *securities* borrowed, for cash collateral, or

- (ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the *Corporation* under subsection 4624(2).
- (4) The collateral must be held in a form that is acceptable to the *Corporation*.
- (5) The following are deemed acceptable forms of collateral holding:
 - (i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or
 - (ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

- (1) The lending client cannot use the *securities* loaned under this Part B.2 of Rule 4600 in any hedging strategy while such *securities* are on loan.
- (2) The borrowing *Dealer Member* or the lending client cannot reuse the assets, provided as collateral under section 4624 to secure the loan, for any other purposes.

4626. Recordkeeping

- (1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

- (1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Securities eligible for borrowing

- (1) A *Dealer Member* can borrow under Part B.2. of Rule 4600 only *securities* held by clients in their non-registered accounts.
- (2) The *Corporation* may further restrict the *securities* that a *Dealer Member* can borrow when it deems these further restrictions to be in the interest of the *Dealer Member's* clients and the public.
- (3) The *securities* eligibility restrictions are published on the *Corporation's* website.

4629. Special audit report

- (1) Upon the *Corporation's* request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member's* activity under Part B.2. of Rule 4600 and compliance with the *Corporation's* requirements.

4630. Additional requirements and restrictions

- (1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems to be in the interest of the *Dealer Member*'s clients and the public and seek to further:
 - (i) increase the transparency of the lending activity,
 - (ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and
 - (iii) preserve market integrity.

4631. - 4699. Reserved.

[...]

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

5101. Introduction

- (1) Rule 5100:
 - (i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],
 - (ii) sets out the permitted arrangements under which *Mutual Fund Dealer Members* may advance funds to clients [section 5112].
 - ~~(iii)~~ sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and
 - ~~(iv)~~ sets out the definitions used within Rules 5200 through 5900 [section 5130].
- ~~(2) For *Mutual Fund Dealer Members*:~~
 - ~~(i) client account margin lending is not permitted, and~~
 - ~~(ii) its own security investments reported on *Mutual Fund Dealer Form 1*, Schedule 1 are classified as inventory positions.~~

5102. - 5109. Reserved.**5110. Margin requirements - purposes**

- (1) The purposes of margin requirements are to:
 - (i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,
 - and
 - (ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading, investing or client account margin lending.
- (2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

5111. Margin requirements - general application

- (1) A *Dealer Member* must:
 - (i) obtain from and maintain for each of its clients, and
 - (ii) maintain for its own inventory accounts,
 minimum margin in the amount and manner prescribed by the *Corporation*.
- (2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.
- (3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on *securities* owned and sold short when calculating its *risk adjusted capital*.

- (4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the *security* or *derivative* position for which margin is being calculated.

5112. Advancing redemption proceeds and client margin lending by Mutual Fund Dealer Members

~~(5) Notwithstanding the client account margin lending requirements set out within Rules 5100 through 5900, a Mutual Fund Dealer Member must not permit the purchase of securities by a client on margin.~~

(1) A *Mutual Fund Dealer Member* may advance funds to a client in connection with the redemption of mutual fund securities where:

- (i) the *Mutual Fund Dealer Member* has received prior confirmation of the redemption order from the issuer of the securities~~;~~_;
- (ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided~~;~~_;
- (iii) the client has authorized payment to and retention by the *Mutual Fund Dealer Member* of redemption proceeds~~;~~_;
- (iv) the *Mutual Fund Dealer Member* maintains a copy of the confirmation of the redemption order and the client's authorization~~;~~_; and
- (v) the *Mutual Fund Dealer Member* maintains a minimum capital amount of \$50,000 or higher.

(2) A *Level 4 Dealer* may offer margin accounts and margin lending to clients if the *Mutual Fund Dealer Member* complies with the requirements for:

- (i) margin accounts in sections 3245 to 3247,
- (ii) the sending of account statements in section 3851,
- (iii) minimum capital provisioning in sub-clause 4111(3)(i)(f),
- (iv) the filing of an audited annual Form 1 within the timeline specified in sub-clause 4151(1)(i)(a),
- (v) the filing of an agreed-upon procedures report as required under subsection 4190(1),
- (vi) the segregation of fully paid and excess margin securities in sections 4310 to 4332,
- (vii) the calculation of margin required for client account margin for investment product positions and position offsets in Series 5000,
- (viii) the reporting of client account cash balances and margin required in Schedule 4 of Form 1, and
- (ix) the calculation of the securities concentration charge in Schedules 11, 11A and 11B of Form 1.

51125113. Application of margin requirements - Dealer Member inventory positions

- (1) Section ~~5112~~5113 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.

(2) Dealer Member long inventory margin

A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:

- (i) applicable margin rate x *market value* of *security*, or
- (ii) by any alternative method specified in the *Corporation requirements*.

(3) Dealer Member short inventory margin

A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:

- (i) applicable margin rate x *market value* of *security* (expressed as absolute value), or
- (ii) by any alternative method specified in the *Corporation requirements*.

51135114. Application of margin requirements - client account positions

- (1) Section 51135114 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.

(2) Client accounts - loan value of long positions

The *loan value* of a long position is generally calculated according to the formula:

- (i) [100% - applicable margin rate %] x positive *market value* of the *security*, or
- (ii) by any alternative method specified in the *Corporation requirements*.

(3) Client accounts - loan value of short positions

The *loan value* of a short client position is generally calculated according to the formula:

- (i) [100% + applicable margin rate %] x negative *market value* of *security*, or
- (ii) by any alternative method specified in the *Corporation requirements*.

(4) Net loan value and status of a client account

- (i) The positive and negative *loan values* in a client margin account must be totalled.
- (ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.
- (iii) If the total *loan value* in a client account results in a net negative *loan value*, the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.
- (iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

51145115. Client securities that are collateral for a margin debt

- (1) If a client is in debt to a *Dealer Member*, all *securities* the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.
- (2) The *securities* ~~an Investment~~ a *Dealer Member* holds under subsection ~~5114(1)~~5115(1) are collateral security subject to ~~Investment Dealer~~ Form 1, Schedule 4 and to any agreement between the ~~Investment Dealer Member~~ and the client.

~~5115~~5116. Dealer Member's rights in securities of indebted clients

- (1) A *Dealer Member* has the right to:
 - (i) raise money on,
 - (ii) carry in its general loans, and
 - (iii) pledge and repledge,
 the client *securities* it holds as collateral under section ~~5114~~5115.

~~5116~~5117. Dealer Member may buy or sell client securities

- (1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:
 - (i) buy *securities* held short for an indebted client, or
 - (ii) sell *securities* it holds for an indebted client.

~~5117~~5118. Dealer Member's right to recover from indebted client

- (1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's *securities*.

~~5118.~~—5119. Reserved.**5120. Margin requirements - when a rate is not specified**

- (1) Where ~~a security~~an investment product position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the *Corporation requirements*, the *Dealer Member* must obtain a margin rule interpretation from *Corporation* staff specifying the margin rate or requirement to be used.

[...]

Rule Consolidation Project – Phase 5 – DC Form 1

A clean copy of the proposed DC Form 1 follows:

Proposed amendments to CIRO Rules have been published for comments under CIRO Bulletin 24-0067 *Fully paid securities lending and financing arrangements*. We show how these proposed amendments, presented in grey boxes, will be brought into the DC Form 1 if approved in their current state, for awareness and context only.

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Dealer Member's name

Date _____

Updated

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Independent Auditor’s Report for Statements A, D and E (at audit date only)		xxx-xxxx
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Independent Auditor’s Report for Statements B, C and F (at audit date only) – Investment Dealer Members ¹		xxx-xxxx
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Schedule 5	List of ten largest settlement date trading balances with acceptable institutions and acceptable counterparties	xxx-xxxx
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Schedule 8	Income taxes	xxx-xxxx

¹ Where a *Mutual Fund Dealer Member* decides to use client free credit cash balances within their operations, the *Mutual Fund Dealer Member* must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members', complete and file Statement F, and the auditors must file an audit opinion on Statements B, C and F.

² Where a *Mutual Fund Dealer Member* decides to offer margin accounts, the *Mutual Fund Dealer Member* must respond to the questions on the ‘Certificate of UDP and CFO - Investment Dealer Members’, complete and file the appropriate client margin and concentration schedules, and the auditors must file the agreed-upon procedure report on compliance for insurance, segregation of investment products and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members’.

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³ “Schedule 18, Supplementary information” and “Schedule 19, Assets under administration information” are not part of an audited Form 1 submission and the names of these schedule will not appear in the “Table of contents” on the electronic or hardcopy version of an audited Form 1 submission.

Form 1 – General notes and definitions

- (1) Each *Dealer Member* must comply with the requirements in Form 1 as approved and amended from time to time by the *Board*.

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the *Corporation*.

- (2) Each *Dealer Member* must complete and file the statements and schedules as listed in the tables below.

A Level 1, 2 and 3 *Mutual Fund Dealer Member* must complete and file the following statements and schedules with the audited annual Form 1 and *monthly financial report*:

Annual Form 1	Monthly financial report
Statements A, B, C, D and E ¹	Statements A, B, C, and D
Schedules 1 and 2	Schedule 2
Schedules 3 and 5	Schedule 12
Schedules 6 and 8 to 10B	Schedule 16
Schedules 12 to 14	Schedule 18
Schedule 16	Schedule 19 – Part A only

A Level 4 *Mutual Fund Dealer Member* must complete and file the following statements and schedules with the audited annual Form 1 and *monthly financial report*:

Annual Form 1	Monthly financial report
Statements A, B, C, D and E ¹	Statements A, B, C, and D ¹
Schedules 1 and 2	Schedule 2
Schedules 3 ² and 5	Schedule 12
Schedules 6 and 8 to 10B ³	Schedule 17 and 17A
Schedules 12 to 14	Schedule 18
Schedule 17 and 17A	Schedule 19 – Part A only

¹ A Level 4 *Mutual Fund Dealer Member* that chooses to use client free credit cash in their operations must also file Statement F in the annual Form 1 and *monthly financial report*.

² A Level 4 *Mutual Fund Dealer Member* that offers client margin lending must file Schedule 4 in the annual Form 1, instead of Schedule 3, and file Schedule 4 Line 3(a) and 3(c) in the *monthly financial report*.

³ A Level 4 *Mutual Fund Dealer Member* that offers client margin lending must file Schedule 11, 11A and 11B instead of Schedule 10, 10A and 10B in the annual Form 1.

An *Investment Dealer Member* must complete and file the following statements and schedules with the audited annual Form 1 and *monthly financial report*:

Annual Form 1	Monthly financial report
Statements A, B, C, D, E and F	Statements A, B, C, D and F
Schedules 1 to 2B	Schedule 2
Schedules 4 and 5	Schedule 4 – Line 3(a) and 3(c) only
Schedules 7 to 9A	Schedule 12
Schedules 11 to 15	Schedule 17 and 17A
Schedule 17 and 17A	Schedule 18 – Part A, B and C only
	Schedule 19 – Part B only

- (3) The following are Form 1 IFRS departures as prescribed by the *Corporation*:

Matter	Prescribed IFRS departure
Client and broker trading balances	For client and broker trading balances, the <i>Corporation</i> allows the netting of receivables from and payables to the same counterparty. A <i>Dealer Member</i> may choose to report client and broker trading balances in accordance with IFRS.
Preferred shares	Preferred shares issued by the <i>Dealer Member</i> and approved by the <i>Corporation</i> are classified as shareholders' capital.

Form 1 – General notes and definitions (Continued)

Matter	Prescribed IFRS departure
Presentation	Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. For Statement D, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax). In addition, specific balances may be classified or presented on Statements A, D and E in a manner that differs from IFRS requirements. The general notes and definitions, and the applicable notes and instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist. Statements B, C, and F are supplementary financial information, which are not statements contemplated under IFRS.
Separate financial statements on a non-consolidated basis	Consolidation of <i>subsidiaries</i> is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a “<i>related company</i>” in subsection 1201(2) of the Dealer and Consolidated Rules and the <i>Corporation</i> has approved the consolidation. Because Statement D only reflects the operational results of the <i>Dealer Member</i>, a <i>Dealer Member</i> must not include the income (loss) of an investment accounted for by the equity method.
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Subordinated loan	For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted.
Valuation	The <i>Corporation requirements’ “market value”</i> definition differs from the IFRS “fair value” definition as it does not assume that all security, precious metals bullion and <i>futures contracts</i> positions have a value and it provides specific instructions on how to value positions in these different types of financial assets.

- (4) The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

Matter	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and <i>derivative</i> positions of a <i>Dealer Member</i> must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	A <i>Dealer Member</i> must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the <i>Corporation</i> does not permit the use of the available for sale and held-to-maturity categories, a <i>Dealer Member</i> must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.
Valuation of a <i>subsidiary</i>	A <i>Dealer Member</i> must value <i>subsidiaries</i> at cost.

- (5) These statements and schedules are prepared in accordance with the *Corporation requirements*.
- (6) For purposes of these statements and schedules, the accounts of related companies that meet the definition of a “*related company*” in subsection 1201(2) of the Dealer and Consolidated Rules may be consolidated.

Form 1 – General notes and definitions (Continued)

- (7) For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the notes and instructions to Form 1.
- (8) *Dealer Members* may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. *Dealer Members* may also determine margin deficiencies for *acceptable institutions*, *acceptable counterparties*, *regulated entities* and investment counselors' accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, *Dealer Members* must do so for all such accounts and consistently from period to period.
- (9) Comparative figures on all statements are only required at the audit date.
- (10) All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
- (11) Supporting details should be provided – as required – showing breakdown of any significant amounts that have not been clearly described on the statements and schedules.
- (12) Mandatory security count - All *securities* except those held in *segregation* or *safekeeping* shall be counted once a month, or monthly on a cyclical basis. Those held in *segregation* and *safekeeping* must be counted once in the year in addition to the count as at the year-end audit date.
- (13) Mandatory reconciliations - Reconciliations must be performed monthly in addition to the year-end audit date between the *Dealer Member's* records and the records of the depository or custodian where the *Dealer Member* holds its own and client *securities*.
- (14) The following terms have the meanings set out when used in Form 1 and the *Corporation requirements*:

“acceptable clearing corporation”	Any clearing agency operating a central system for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency's powers of compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of acceptable clearing corporations.
“acceptable counterparty”	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows: (i) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. <i>subordinated debt</i>) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection. (ii) Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection. (iii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection. (iv) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.

Form 1 – General notes and definitions (Continued)

	(v) Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million. (vi) Corporations (other than <i>regulated entities</i>) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection. (vii) Trusts and limited partnerships (other than <i>regulated entities</i>) with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection. (viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (ix) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection. (x) Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection. (xi) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (xii) Federal governments of foreign countries which do not qualify as a <i>Basel Accord country</i>. For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i>. <i>Subsidiaries</i> (excluding <i>regulated entities</i>) whose business falls in the category of any of the above enterprises and whose parent or <i>affiliate</i> qualifies as an <i>acceptable counterparty</i> may also be considered as an <i>acceptable counterparty</i> if the parent or <i>affiliate</i> provides a written unconditional irrevocable guarantee, subject to approval by the <i>Corporation</i>.
“acceptable exchange”	An entity that: (i) operates as an exchange for securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation, (ii) if applicable, maintains and enforces adequate initial and ongoing listing requirements for at least one exchange market or market tier, and (iii) maintains and enforces (or contracts with a regulatory services provider to maintain and enforce) adequate trading requirements for at least one exchange market or market tier.
“acceptable institution”	An entity with which a <i>Dealer Member</i> is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:

Form 1 – General notes and definitions (Continued)

	(i) Government of Canada, the Bank of Canada and provincial governments. (ii) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments. (iii) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. <i>subordinated debt</i>) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection. (iv) Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection. (v) Federal government of a <i>Basel Accord country</i>. (vi) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection. (vii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection. (viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (ix) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i>. <i>Subsidiaries</i> (other than <i>regulated entities</i>) whose business falls in the category of any of the above enterprises and whose parent or <i>affiliate</i> qualifies as an <i>acceptable institution</i> may also be considered as an <i>acceptable institution</i> if the parent or <i>affiliate</i> provides a written unconditional irrevocable guarantee, subject to approval by the <i>Corporation</i>.
“acceptable securities location”	A location considered suitable to hold securities, precious metals bullion and other like assets, on behalf of a <i>Dealer Member</i>, for both inventory and client positions, without capital penalty. To be suitable, the location must meet <i>segregation</i> and custody <i>Corporation requirements</i> including, but not limited to, the requirement for a written custody agreement. The written custody agreement must outline the terms under which securities are deposited and include the provisions set out in section 4353. The entities with locations that are considered suitable are as follows:

Form 1 – General notes and definitions (Continued)

	(i) Depositories and Clearing Agencies Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers of compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria. (ii) <i>Acceptable institutions</i> and <i>subsidiaries</i> of <i>acceptable institutions</i> that satisfy the following criteria: (a) <i>Acceptable institutions</i> which in their normal course of business offer custodial security services, or (b) <i>Subsidiaries</i> of <i>acceptable institutions</i> provided that each such subsidiary, together with the <i>acceptable institution</i>, has entered into a custodial agreement with the <i>Dealer Member</i> containing a legally enforceable indemnity by the <i>acceptable institution</i> in favour of the <i>Dealer Member</i> covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the <i>Dealer Member</i> and its clients at the <i>subsidiary's</i> location. (iii) <i>Acceptable counterparties</i> - with respect to security positions maintained as a book entry of securities issued by the <i>acceptable counterparty</i> and for which the <i>acceptable counterparty</i> is unconditionally responsible. (iv) Banks and trust companies otherwise classified as <i>acceptable counterparties</i> - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required). (v) Mutual Funds or their agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible. (vi) <i>Regulated entities</i>. (vii) Foreign institutions and securities dealers that satisfy the following criteria: (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Canadian \$150 million as evidenced by the audited financial statements of such entity, provided that: (I) a foreign custodian certificate has been completed and signed in the prescribed form by the <i>Dealer Member's</i> board of directors or authorized committee, (II) a formal application in respect of each such foreign location is made by the <i>Dealer Member</i> to the <i>Corporation</i> in the form of a letter enclosing the financial statements and certificate described above, and (III) the <i>Dealer Member</i> reviews each such foreign location annually and files a foreign custodian certificate with the <i>Corporation</i> annually. (viii) For London Bullion Market Association (LBMA) gold and silver good delivery bars, those entities considered suitable to hold these bars on behalf of a <i>Dealer Member</i>, for both inventory and client positions, without capital penalty must:

Form 1 – General notes and definitions (Continued)

	(a) be a market making member, full member, or affiliate member of the LBMA, (b) be on the <i>Corporation's</i> list of entities considered suitable to hold LBMA gold and silver good delivery bars, and (c) have executed a written precious metals storage agreement with the <i>Dealer Member</i>, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the <i>Dealer Member</i>, and these bars can be delivered to the <i>Dealer Member</i> promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the <i>Dealer Member</i> as the standard securities custodial agreement. (ix) Other locations which have been approved as an <i>acceptable securities location</i> by the <i>Corporation</i>.
“Basel Accord country”	A country that is a member of the Basel Accord and has adopted the banking and supervisory rules set out in the Basel Accord. (The Basel Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.) A list of current <i>Basel Accord countries</i> is included in the most recent Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.
“diversified investment product”	A security whose underlier is a basket of <i>investment products</i> consists of thirty or more products, where, (i) the single largest basket <i>investment product</i> position by weighting comprises not more than 20% of the overall <i>market value</i> of the basket, (ii) the average market capitalization associated with any <i>equity securities</i> in the basket is at least \$100 million, (iii) the basket securities shall be from a broad range of industries and market sectors as determined by the <i>Corporation</i> to represent diversification, (iv) any equity securities in the basket are listed and traded on an <i>acceptable exchange</i>, and (v) the basket of <i>investment products</i> does not include any derivatives.
“designated rating organization”	A credit rating organization, or its designated <i>affiliate</i>, or designated successor credit rating organization, that has been designated under securities laws. If the designation of a designated rating organization under securities laws is subject to terms and conditions that only recognize its credit ratings for certain purposes or certain asset classes, then any use of its credit ratings for the purposes of this definition is subject to the same terms and conditions, unless specified otherwise. Any reference to a particular rating category of a designated rating organization includes: (i) the corresponding rating category of another <i>designated rating organization</i>, (ii) where applicable, the corresponding rating category for short term debt, and (iii) a category that replaces that rating category.
“extended settlement date”	A transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.

Form 1 – General notes and definitions (Continued)

“regulated entity”	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entity is a <i>Dealer Member</i> or a securities dealer that is subject to adequate regulatory oversight by a regulator or self-regulatory organization equivalent to the <i>Corporation</i>. For the purposes of this definition, regulators and self-regulatory organizations with equivalent dealer regulatory oversight must meet the following criteria: (i) require its dealers to be member firms of the <i>Investor Protection Fund (IPF)</i> or of an investor protection regime that is equivalent to <i>IPF</i>, (ii) be a government agency or a self-regulatory organization subject to regulatory oversight reviews by a government agency, (iii) require the <i>segregation</i> of customers’ fully paid for securities by its regulated dealers, (iv) have rules that set out specific methodologies for the <i>segregation</i> of, or reserve for, customer credit balances, (v) have established rules regarding dealer and customer account margining, (vi) conduct regular examinations of its regulated dealers and monitor their regulatory capital on an ongoing basis, and (vii) require regular regulatory financial reporting by its regulated dealers. The regulators and self-regulatory organizations are determined at the discretion of the <i>Corporation</i>, as made available on the <i>Corporation’s</i> website.
“regular settlement date”	The settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 <i>business days</i> past trade date, settlement date will be deemed to be 15 <i>business days</i> past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Mutual Fund Dealer Members

Mutual Fund Dealer Member's Name

We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the financial position and capital of the *Mutual Fund Dealer Member* at _____ <date> _____ and the results of operations for the period then ended, and are in agreement with the books of the *Mutual Fund Dealer Member*.

We certify that the following information is true and correct to the best of our knowledge for the period from the last audit to the date of the attached statements, which have been prepared in accordance with the current *Corporation requirements*:

Answer

1. Does the *Mutual Fund Dealer Member* have adequate *internal controls* in accordance with the rules? _____
2. Does the *Mutual Fund Dealer Member* maintain adequate books and *records* in accordance with the rules? _____
3. Does the *Mutual Fund Dealer Member* monitor on a regular basis its adherence to early warning requirements in accordance with the rules? _____
4. Does the *Mutual Fund Dealer Member* carry insurance of the type and in the amount required by the rules? _____
5. Does the *Mutual Fund Dealer Member* determine on a regular basis its *segregation* amount and act promptly to segregate assets as appropriate in accordance with the rules? _____
6. Does the *Mutual Fund Dealer Member* promptly segregate clients' cash and securities in accordance with the rules? _____
7. Does the *Mutual Fund Dealer Member* perform regular reconciliations of its trust accounts in accordance with the rules? _____
8. Does the *Mutual Fund Dealer Member* perform regular reconciliations of its transactions with fund company and other financial institution records in accordance with the rules? _____
9. Have all "concentrations of securities" been identified on Schedule 10? _____

Do the attached statements fully disclose all assets and liabilities including the following: _____

10. All future purchase and sales commitments? _____
11. Writs issued against the *Mutual Fund Dealer Member* or partners or any other litigation pending? _____
12. Income tax arrears? _____
13. Other contingent liabilities, *guarantees*, accommodation endorsements or commitments affecting the financial position of the *Mutual Fund Dealer Member*? _____

Ultimate Designated Person

Date

Chief Financial Officer

Date

Other Executive, if applicable

Date

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Investment Dealer Members

Investment Dealer Member's Name

We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the financial position and capital of the *Investment Dealer Member* at _____ <date> _____ and the results of operations for the period then ended, and are in agreement with the books of the *Investment Dealer Member*.

We certify that the following information is true and correct to the best of our knowledge for the period from the last audit to the date of the attached statements, which have been prepared in accordance with the current *Corporation requirements*:

Answer

1. Does the *Investment Dealer Member* have adequate *internal controls* in accordance with the rules? _____
2. Does the *Investment Dealer Member* maintain adequate books and *records* in accordance with the rules? _____
3. Does the *Investment Dealer Member* monitor on a regular basis its adherence to early warning requirements in accordance with the rules? _____
4. Does the *Investment Dealer Member* carry insurance of the type and in the amount required by the rules? _____
5. Does the *Investment Dealer Member* determine on a regular basis its free credit *segregation* amount and act promptly to segregate assets as appropriate in accordance with the rules? _____
6. Does the *Investment Dealer Member* promptly segregate clients' securities in accordance with the rules? _____
7. Does the *Investment Dealer Member* follow the minimum required policies and procedures relating to security counts? _____
8. Have all "concentrations of securities" been identified on Schedule 11? _____

Do the attached statements fully disclose all assets and liabilities including the following:

9. Participation in any underwriting or other agreement subject to future demands? _____
10. Outstanding puts, calls or other *options*? _____
11. All future purchase and sales commitments? _____
12. Writs issued against the *Investment Dealer Member* or partners or any other litigation pending? _____
13. Income tax arrears? _____
14. Other contingent liabilities, *guarantees*, accommodation endorsements or commitments affecting the financial position of the *Investment Dealer Member*? _____

Ultimate Designated Person

Date

Chief Financial Officer

Date

Other Executive, if applicable

Date

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO)

Notes and instructions

- (1) If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or use client free credit balances in its operations under subsection 4382(2), the *Mutual Fund Dealer Member* must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members' and submit this version of the certificate with the audited annual Form 1.
- (2) Details must be given for any "no" answers.
- (3) To be signed by:
 - (i) *Ultimate Designated Person* (UDP),
 - (ii) *Chief Financial Officer* (CFO), and
 - (iii) at least one other *Executive* if the UDP and CFO are the same person.

Where there is only one individual that meets the qualifications of the positions listed above, this individual must sign the certificate.

Independent Auditor's Report for Statements A, D and E

To: _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____

Opinion

We have audited the Statements of Form 1 of _____<Dealer Member's name>_____, which comprise of:

- Statement A – Statements of financial position as at _____<date>_____ and _____<date>_____,
- Statement D – Statements of income and comprehensive income for the years ended _____<date>_____ and _____<date>_____,
- Statement E – Statements of changes in capital for the year ended _____<date>_____, and changes in retained earnings (or undivided profits) for the years ended _____<date>_____ and _____<date>_____, and notes to the Statements, including material accounting policy information (collectively referred to as the Statements).

In our opinion, the accompanying Statements present fairly, in all material respects the financial position of the Dealer Member as at _____<date>_____ and _____<date>_____, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note _____<note>_____ to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note _____<note>_____ in the statements which indicates that [insert key events and conditions that resulted in the material uncertainty]. As stated in note _____<note>_____ in the Statements, these events and conditions, along with other matters as set forth in note _____<note>_____ in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules 16, 17 and 17A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____ and should not be used by parties other than the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation and fair presentation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report for Statements A, D and E (Continued)

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Statements, including the disclosures, and whether the Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Independent Auditor's Report for Statement B and C – Mutual Fund Dealer Members

To: _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____

Opinion

We have audited the Statements of Form 1 of _____<Dealer Member's name>_____, which comprise of:

- Statement B – Statements of net allowable assets and risk adjusted capital as at _____<date>_____ and _____<date>_____
- Statement C – Statements of early warning excess and early warning reserve as at _____<date>_____.

In our opinion, the accompanying Statement B as at _____<date>_____ and _____<date>_____ and Statement C as at _____<date>_____ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note _____<note>_____ to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note _____<note>_____ in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note _____<note>_____ in the Statements, these events and conditions, along with other matters as set forth in note _____<note>_____ in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules 16, 17 and 17A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____ and should not be used by parties other than the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a

Independent Auditor's Report for Statement B and C – Mutual Fund Dealer Members (Continued)

high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Independent Auditor's Report for Statement B, C, and F – Investment Dealer Members

To: _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____

Opinion

We have audited the Statements of Form 1 of _____<Dealer Member's name>_____, which comprise of:

- Statement B - Statements of net allowable assets and risk adjusted capital as at _____<date>_____ and _____<date>_____
- Statement C - Statements of early warning excess and early warning reserve as at _____<date>_____
- Statement F- Statements of free credit segregation amount as at _____<date>_____ (collectively referred to as the Statements).

In our opinion, the accompanying Statement B as at _____<date>_____ and _____<date>_____, Statement C and F as at _____<date>_____ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note _____<note>_____ to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note _____<note>_____ in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note _____<note>_____ in the Statements, these events and conditions, along with other matters as set forth in note _____<note>_____ in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules 16, 17 and 17A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____ and should not be used by parties other than the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Independent Auditor's Report for Statement B, C, and F – Investment Dealer Members (Continued)

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Form 1 – Independent Auditor’s Reports
Notes and instructions

- (1) A measure of uniformity in the form of the auditor's reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's reports shown above.
- (2) The auditor report form for Statement A, D and E is applicable for both *Mutual Fund Dealer Members* and *Investment Dealer Members*. The auditor report form for Statements B and C is applicable for *Mutual Fund Dealer Members* that do not use client free credit balances in their operations. The audit report form for Statements B, C and F is applicable to *Investment Dealer Members* and those *Mutual Fund Dealer Members* that choose to use client free credit balances in their operations under subsection 4382(2).
- (3) Any limitations in the scope of the audit must be discussed in advance with the *Corporation*. Discretionary scope limitations will not be accepted. Any other potential emphasis of matter and other matter paragraphs in the auditor's reports must be discussed in advance with the *Corporation*.

Form 1, Part 1 – Statement A

Dealer Member's name

Statement of financial position

at

	Reference	Notes	Current year C\$000's	Previous year C\$000's
Liquid assets				
1. Cash on deposit with <i>acceptable institutions</i>				
2. Client funds deposited in trust with <i>acceptable institutions</i>				
3. Cash, held in trust with <i>acceptable institutions</i> , due to free credit ratio calculation	Stmt. F			
4. Variable base deposits and margin deposits with <i>acceptable clearing corporations</i> [cash balances only]				
5. Margin deposits with <i>regulated entities</i> [cash balances only]				
6. Loans receivable, securities borrowed and resold	Sch. 1			
7. Securities owned - at <i>market value</i>	Sch. 2			
8. Securities owned and segregated due to free credit ratio calculation	Sch. 2			
9. Client accounts	Sch. 3/ Sch. 4			
10. Brokers and dealers trading balances	Sch. 6/ Sch. 7			
11. Receivable from introducing or carrying broker				
12. Receivable from mutual fund				
13. Total liquid assets				
Other allowable assets (receivables from acceptable institutions)				
14. Current income tax assets	Sch. 8			
15. Recoverable and overpaid taxes				
16. Commissions and fees receivable				
17. Interest and dividends receivable				
18. Other receivables [provide details]				
19. Total other allowable assets				
20. Total allowable assets [Line 13 plus Line 19]				
Non-allowable assets				
21. Other deposits with <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]				
22. Deposits and other balances with non-acceptable clearing corporations [cash or <i>market value</i> of securities lodged]				
23. Commissions and fees receivable				
24. Interest and dividends receivable				
25. Deferred tax assets				

Form 1, Part 1 – Statement A (Continued)

26. Intangible assets		_____	_____	_____
27. Property, plant and equipment		_____	_____	_____
28. Investments in <i>subsidiaries</i> and <i>affiliates</i>		_____	_____	_____
29. Advances to <i>subsidiaries</i> and <i>affiliates</i>		_____	_____	_____
30. Other assets [provide details]		_____	_____	_____
31. Total non-allowable assets			_____	_____
32. Finance lease assets		_____	_____	_____
33. Total assets			_____	_____
Current liabilities				
51. Bank overdrafts		_____	_____	_____
52. Loans payable, securities loaned and repurchases	Sch. 9	_____	_____	_____
53. Securities sold short - at <i>market value</i>	Sch. 2	_____	_____	_____
54. Client accounts	Sch. 3 / Sch. 4	_____	_____	_____
55. Brokers and dealers trading balances	Sch. 6 / Sch. 7	_____	_____	_____
56. Payable to introducing or carrying broker		_____	_____	_____
57. Provisions		_____	_____	_____
58. Current income tax liabilities	Sch. 8	_____	_____	_____
59. Variable compensation payable		_____	_____	_____
60. Bonuses payable		_____	_____	_____
61. Accounts payable and accrued expenses		_____	_____	_____
62. Finance leases and lease-related liabilities		_____	_____	_____
63. Other current liabilities [provide details]		_____	_____	_____
64. Total current liabilities			_____	_____
Non-current liabilities				
65. Provisions		_____	_____	_____
66. Deferred tax liabilities		_____	_____	_____
67. Finance leases and lease-related liabilities		_____	_____	_____
68. Other non-current liabilities [provide details]		_____	_____	_____
69. Subordinated loans		_____	_____	_____
70. Total non-current liabilities			_____	_____
71. Total liabilities [Line 64 plus Line 70]			_____	_____
Capital and reserves				
72. Issued capital	Stmt. E	_____	_____	_____
73. Reserves	Stmt. E	_____	_____	_____
74. Retained earnings or undivided profits or fund balances	Stmt. E	_____	_____	_____
75. Total capital			_____	_____
76. Total liabilities and capital [Line 71 plus Line 75]			_____	_____

Form 1, Part I – Statement A
Notes and instructions

(1) *Dealer Members* are required to use the accrual basis of accounting.

(2) **Line 2** – For *Mutual Fund Dealer Members*, include reconciled client cash balances in trust accounts that are held at a Canadian financial institution qualifying as an *acceptable institution*. For *Investment Dealer Members*, include client cash balances deposited in trust for RRSP and other similar accounts at a Canadian financial institution qualifying as an *acceptable institution*.

Such trust accounts must be insured by the Canada Deposit Insurance Corporation (CDIC) or Autorité des marchés financiers (AMF). If not, then the *Dealer Member* must report 100% of the balance held in trust as non-allowable assets on Line 30 (Non-allowable assets – other assets).

RRSP and other similar balances held at such trustee, but for which CDIC or the AMF insurance is not available, such as foreign currency accounts, can be classified as allowable assets.

The name of the RRSP trustee used by the *Dealer Member* must also be provided on Schedule 3 or Schedule 4.

(3) **Line 4** – Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 13 of Schedule 2.

(4) **Line 5** – Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 13 of Schedule 2.

(5) **Line 11** – For an *introducing broker* (pursuant to an approved *introducing/carrying broker agreement*), include unsecured balances receivable from the *carrying broker*, such as gross commissions and deposits in the form of cash. Unsecured balances should only be included to the extent they are not being used by the *carrying broker* to reduce client margin requirements.

For a *carrying broker* (pursuant to an approved *introducing/carrying broker agreement*), include unsecured balances receivable from the *introducing broker*, such as service fees.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 13 of Schedule 2.

(6) **Line 12** – In the case of the *Registered Representative's* portion of gross commissions and fees receivable, as recorded on Line 21 (Commissions and fees receivable), to the extent that there is written documentation that the broker does not have a liability to pay the *Registered Representative's* commission until it is received, the *Registered Representative's* portion of the gross commission receivable is an allowable asset.

(7) **Line 14** – Include only overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.

(8) **Line 15** – Include the recoverable portion of capital tax, Part VI tax, property taxes and any federal or provincial sales taxes.

Include only to extent receivable from *acceptable institutions*.

(9) **Line 19** – Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Include only to extent receivable from *acceptable institutions*.

(10) **Line 21** – Report the cash and *market value* of securities lodged with *acceptable clearing corporations* that represent fixed base deposits.

(11) **Line 22** – To the extent receivable from other than *acceptable clearing corporations*, include all deposits whether margin deposits or variable and fixed base deposits.

(12) **Line 23** – To the extent receivable from parties other than *acceptable institutions*.

(13) **Line 24** – To the extent receivable from parties other than *acceptable institutions*.

(14) **Line 26** – Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.

(15) **Line 28** – Investments in *subsidiaries* and *affiliates* must be valued at cost.

(16) **Line 29** – A *Dealer Member* must report non-trading inter-company receivables on a gross basis unless the criteria for

Form 1, Part I – Statement A
Notes and instructions (Continued)

netting are met.

(17) **Line 30** - Including but not limited to such items as:

- advances to *employees* (gross)
- cash on deposit with non-acceptable institutions
- cash surrender value of life insurance
- other receivables from other than *acceptable institutions*
- prepaid expenses
- provincial contingency/fund deposits

(18) **Line 31** - Non-allowable assets mean those assets that do not qualify as allowable assets.

(19) **Line 32** - Assets arising from a finance lease (also known as a capitalized lease).

(20) **Line 51** - Overdrawn operating cash balances.

(21) **Line 56** - For an *introducing broker* (pursuant to an approved *introducing/carrying broker agreement*), include amounts payable to the *carrying broker* by the *introducing broker*.

For a *carrying broker* (pursuant to an approved *introducing/carrying broker agreement*), include amounts payable to the *introducing broker* by the *carrying broker*.

(22) **Line 57** - Recognize a liability to cover specific expenditures relating to legal and constructive obligations. A *Dealer Member* cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.

(23) **Line 59** - Includes sales commissions and trailer fees owing to salespersons.

(24) **Line 60** - Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.

(25) **Line 63** - Include unclaimed dividends and interest and current liabilities to subsidiaries and affiliates.

(26) **Line 68** - Include non-current liabilities to subsidiaries and affiliates.

(27) **Line 69** - Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the *Corporation*, obtained from a *chartered bank* or any other lending institution, *industry investor* approved as such by the *Corporation*, or non-industry investor subject to the *Corporation's* approval, the payment of which is deferred in favor of other creditors and is subject to regulatory approval.

A *Dealer Member* must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the *Corporation* are parties.

(28) **Line 73** - Reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. It also includes accumulated other comprehensive income (OCI).

(29) **Line 74** - The amount on this line represents the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits. For a *Dealer Member* structured as a corporation, this amount is referred to as retained earnings. For a *Dealer Member* structured as a partnership, this amount is referred to as undivided profits. For a *Dealer Member* structured as a not-for-profit organization, this amount is referred to as fund balances.

Form 1, Part I – Statement B

Dealer Member's name _____

Statement of net allowable assets and risk adjusted capital

at _____

	Reference	Notes	Current year C\$000's	Previous year C\$000's
1. Total capital	A-75	_____	_____	_____
2. Add: Non-refundable leasehold inducements		_____	_____	_____
3. Add: Subordinated loans	A-69	_____	_____	_____
3b. Add: Non-current liabilities phase out adjustment (mutual fund dealers)		_____	_____	_____
4. Deduct: Externally restricted fund balances (For NFP only)		_____	_____	_____
5. Regulatory financial statement capital [Sum of Lines 1 to 3b minus Line 4]		_____	_____	_____
6. Deduct: Total non-allowable assets	A-31	_____	_____	_____
7. Net allowable assets [Line 5 minus Line 6]		_____	_____	_____
8. Deduct: Minimum capital		_____	_____	_____
9. Subtotal [Line 7 minus Line 8]		_____	_____	_____
Deduct - Margin required:				
10. Loans receivable, securities borrowed and resold	Sch.1	_____	_____	_____
11. Securities owned and sold short	Sch.2	_____	_____	_____
12. Underwriting concentration	Sch.2A	_____	_____	_____
13. Client accounts	Sch.3/Sch.4	_____	_____	_____
14. Brokers and dealers	Sch.6/Sch.7	_____	_____	_____
15. Loans and repurchases	Sch.9	_____	_____	_____
16. Contingent liabilities [provide details]		_____	_____	_____
17. Financial Institution Bond deductible [greatest under any clause]	Sch.12	_____	_____	_____
18. Unhedged foreign currencies	Sch.13	_____	_____	_____
19. Provider of capital concentration charge	Sch.14	_____	_____	_____
19b. Provider of capital concentration charge phase in adjustment (mutual fund dealers)		_____	_____	_____
20. Futures contracts	Sch.15	_____	_____	_____
21. Securities held at non-acceptable securities locations		_____	_____	_____
22. Client cash not segregated in trust		_____	_____	_____
23. <i>Acceptable counterparties</i> financing activities concentration charge	Sch.9A	_____	_____	_____
24. Unresolved differences [provide details]		_____	_____	_____
25. Other [provide details]		_____	_____	_____
26. Total margin required [Sum of Lines 10 to 25]		_____	_____	_____
27. Subtotal [Line 9 less Line 26]		_____	_____	_____
28. Add: Applicable tax recoveries	Sch.8A	_____	_____	_____

See notes and instructions

xxx-xxxx

Form 1, Part I – Statement B (Continued)

29.	<i>Risk adjusted capital</i> before securities concentration charge [Line 27 plus Line 28]			
30.	Deduct: Securities concentration charge of _____	Sch.10/Sch. 11		
	less tax recoveries of _____	Sch.8A		
31.	<i>Risk adjusted capital</i> [Line 29 less Line 30]			

Form 1, Part I – Statement B supplemental

Dealer Member's name

Date

Statement B – Line 24: Details of unresolved differences

	Reconciled as at report date (Yes/No)	Number of items	Debit/short value (Potential losses)	Number of items	Credit/long value (Potential gains)	Required to margin
(a) Clearing						
(b) Brokers and dealers						
(c) Bank and trust accounts						
(d) Intercompany accounts						
(e) Mutual funds – nominee accounts						
(f) Security counts						
(g) Other unreconciled differences						
Total						B-24

Form 1, Part 1 – Statement B
Notes and instructions

(1) Capital adequacy

A *Dealer Member* must have and maintain at all times *risk adjusted capital* in an amount not less than zero.

(2) Netting for margin calculation

When applying *Corporation requirements* for margin rules, a *Dealer Member* can net allowable assets and liabilities as well as security positions. Except where there is a prescribed IFRS departure, netting is for regulatory margin purposes only (and not for presentation purposes).

(3) Line 2 – Non-current liability – non-refundable leasehold inducements

In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the *Dealer Member* (i.e. the *Dealer Member* does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the *Dealer Member*), the non-current portion of the lease liability for leasehold inducements can be reported as an adjustment to *risk adjusted capital*.

(4) Line 3b – Non-current liabilities phase out adjustment

A *Mutual Fund Dealer Member* that reported non-current liabilities on their final MFD Form 1 before implementation of the DC Form 1 (Pre-DC Form 1 non-current liabilities) may add back a portion of these non-current liabilities when determining the net allowable assets during the transitional period following the implementation of the Dealer and Consolidated Rules. On Line 3b the *Mutual Fund Dealer Member* should report the lesser of:

- (i) the amount that equals the Pre-DC Form 1 non-current liabilities multiplied by the phase out percentage in the chart below:

Period following DC Rule Implementation	Phase out percentage
1 st year	90%
2 nd and 3 rd year	80%
4 th and 5 th year	50%
6 th year	0%

and

- (ii) the current total non-current liabilities, excluding subordinated debt, reported on Statement A (Lines 65 to 68).

(5) Line 4 – Externally restricted fund balances

For *Dealer Members* that are structured as a not-for-profit (NFP), any fund balances that are restricted by an external party, other than the *Corporation*, must be deducted from *risk adjusted capital*.

(6) Line 8 – Minimum capital

For *Mutual Fund Dealer Members*, the minimum capital amount is:

\$25,000	for a firm designated as a Level 1 Dealer
\$50,000	for a firm designated as a Level 2 Dealer that is not registered as an investment fund manager under <i>securities laws</i>
\$75,000	for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under <i>securities laws</i>
\$100,000	for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under <i>securities laws</i>
\$200,000	for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients
\$250,000	for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients.

For *Investment Dealer Members*, the minimum capital amount is:

\$75,000	for a firm that is a Type 1 <i>introducing broker</i>
\$250,000	for a firm that is not a Type 1 <i>introducing broker</i>

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

(7) Line 16 – Contingent liabilities

No *Dealer Member* may give, directly or indirectly, by means of a loan, *guarantee*, the provision of security or of a covenant or otherwise, any financial assistance to an *individual* and/or corporation unless the amount of the loan, *guarantee*, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing *risk adjusted capital*.

The margin required shall be the amount of the loan, *guarantee*, etc. less the loan value of any accessible collateral, calculated in accordance with the *Corporation requirements*.

A *guarantee* of payment is not acceptable collateral to reduce margin required.

The *Dealer Member* should maintain and retain the details of the margin calculations for contingencies, such as *guarantees*, for the *Corporation's* review.

(8) Line 19b – Provider of capital concentration phase in adjustment

Where a *Mutual Fund Dealer Member* has a provider of capital concentration charge, the charge may be reduced by the following percentage during the transitional period following the implementation of the Dealer and Consolidated Rules:

Period following DC Rule Implementation	Reduction percentage
1 st year	90%
2 nd and 3 rd year	80%
4 th and 5 th year	50%
6 th year	0%

On Line 19b the *Mutual Fund Dealer Member* should report the amount that equals the provider of capital concentration charge multiplied by the reduction percentage in the chart above. This amount will be reduced in the determination of the *total margin required*.

(9) Line 21 – Securities held at non-acceptable securities locations

(i) Capital Requirements

In general, the capital requirements for securities held in custody at another entity are as follows:

- (a) Where the entity qualifies as an *acceptable securities location*, there shall be no capital requirement, provided there are no unresolved differences between the amounts reported on the books of the entity acting as custodian and the amounts reported on the books of the *Dealer Member*. The capital requirements for unresolved differences are discussed separately in the notes and instructions for the completion of Statement B, Line 24 below.
- (b) Where the entity does not qualify as an *acceptable securities location*, the entity shall be considered a non-acceptable securities location and the *Dealer Member* shall be required to deduct 100% of the *market value* of the securities held in custody with the entity in the calculation of its *risk adjusted capital*.

However, there is one exception to the above general requirements. Where the entity would otherwise qualify as an *acceptable securities location* except for the fact that the *Dealer Member* has not entered into a written custodial agreement with the entity, as required by *Corporation requirements*, the capital requirement shall be determined as follows:

- (I) Where setoff risk with the entity is present, the *Dealer Member* shall be required to deduct in the calculation of its *risk adjusted capital*, the lesser of:
 - (A) 100% of the setoff risk exposure to the entity, or
 - (B) 100% of the *market value* of the securities held in custody with the entity,and
- (II) The *Dealer Member* shall be required to deduct 10% of the *market value* of the securities held in custody with the entity in the calculation of its *early warning reserve*.

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

The sum of the requirements calculated in paragraphs (I) and (II) above shall be no greater than 100% of the *market value* of the securities held in custody with the entity. Where the sum amounts initially calculated in paragraphs (I) and (II) above are greater than 100%, the capital required under paragraph (II) and the amount reported as a deduction in the calculation of the *early warning reserve* shall be reduced accordingly.

For the purposes of determining the capital requirement detailed in paragraph (I) above, the term “setoff risk” shall mean the risk exposure that results from the situation where the *Dealer Member* has other transactions, balances or positions with the entity, where the resultant obligations of the *Dealer Member* might be setoff against the value of the securities held in custody with the entity.

(ii) Client Waiver

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the *Dealer Member* is unable to arrange for the holding of client securities in the jurisdiction at an *acceptable securities location*, the *Dealer Member* may hold such securities at a location in that jurisdiction if

- (a) the *Dealer Member* has entered into a written custodial agreement with the location as required hereunder and
- (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the *Dealer Member*, in a form approved by the *Corporation*. Such a consent and waiver must be obtained on a transaction by transaction basis.

(10) **Line 22 – Cash not segregated in trust**

Where the *Dealer Member* is a *Mutual Fund Dealer Member* that does not use client free credit cash balances within their operations and the *Dealer Member* does not segregate client cash into a trust account within one business day following determination of the deficiency, the amount of the deficiency must be reported on this line as a capital charge.

Where the *Dealer Member* is a *Mutual Fund Dealer Member* that uses client free credit cash balances within their operations or an *Investment Dealer Member* and the *Dealer Member* does not segregate free credits as required on Statement F within one business day following determination of a free credit segregation deficiency, the amount of the deficiency required to be segregated must be reported on this line as a capital charge.

(11) **Line 24 – Unresolved Differences**

Items are considered unresolved unless:

- (i) a written acknowledgement from the counterparty of a valid claim has been received
- (ii) a journal entry to resolve the difference has been processed as of the due date of Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of Form 1.

Provision should be made for the *market value* and margin requirements at the Form 1 date on out-of-balance short securities and other adverse unresolved differences (such as, with banks, trust companies, mutual fund companies, brokers, clearing corporations) still unresolved as at a date one month subsequent to the Form 1 date or other applicable due date of Form 1.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the *Corporation*, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

Type of unresolved difference	Amount required to margin
Money balance - credit (potential gains)	None
Money balance - debit (potential losses)	Money balance
Unresolved long with money on the <i>Dealer Member's</i> book	Money balance on the trade minus <i>market value</i> of the

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

Type of unresolved difference	Amount required to margin
	security ¹ plus the applicable inventory margin
Unresolved long without money on the <i>Dealer Member's</i> books	None

Unresolved short with money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security minus money balance on the trade ² plus the applicable inventory margin
Unresolved long/short on the other broker's books	None
Short security break (e.g. mutual funds, stock dividends) or Unresolved short without money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security plus the applicable inventory margin

If an adverse unresolved difference (deficiency) in a nominee name mutual fund position has not been resolved within thirty days of being discovered, the *Dealer Member* shall immediately purchase the securities that are short.

Where nominee name mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

(12) Statement B Supplemental

- (i) Unresolved differences in accounts:

Report all differences determined on or before the report date that have not been resolved as of the due date.

Month end	Month end plus 20 business days
(Report date)	(Due date)
Include differences determined on or before the report date that have not been resolved as of the due date. Do not include differences as of the report date that have been resolved on or before the due date.	

For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The debit/short value column includes money differences and *market value* of security differences, which represent a potential loss. The credit/long value column includes money differences and *market value* of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position *market value* of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliations must be properly documented and made available for review by the *Corporation's* examination staff and the *Dealer Member's* auditor.

¹ Money balance on the trade minus *market value* of the security is also referred to as the mark-to-market adjustment.

² *Market value* of the security minus money balance on the trade is also referred to as the mark-to-market adjustment.

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

(ii) Unresolved differences in security counts:

Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the *market value* of short security differences plus the applicable inventory margin.

(13) **Line 25 – Other**

This item should include all margin requirements not mentioned above as outlined in the *Corporation requirements*.

Form 1, Part I – Statement C

Dealer Member's name

Statement of early warning excess and early warning reserve

at

	Reference	Notes	C\$000's	Current year C\$000's
1. <i>Risk adjusted capital</i>	B-31			
Liquidity items				
2. Deduct: Other allowable assets	A-19			
3. Deduct: Tax recoveries	Sch.8A			
4. Deduct: Securities held at non-acceptable securities locations				
5. Add: Non-current liabilities	A-70			
6. Less: Subordinated loans	A-69			
7. Less: Finance leases and lease-related liabilities	A-67			
7b. Less: Portion of non-current liabilities phased in	B-3b			
8. Adjusted non-current liabilities for early warning purposes [Line 5 less Lines 6, 7 and 7b]				
9. Add: Tax recoveries - income accruals	Sch.8A			
10. Add: Lesser of:				
(a) Other allowable assets with provider of capital that resulted in capital charge reported on Line 10 (b) below				
(b) Provider of capital concentration charge	Sch.14			
11. Early warning excess [Line 1 less Lines 2 through 4 plus lines 8 through 10]				
12. Deduct: Capital cushion - <i>Total margin required</i> \$_____ multiplied by 5%	B-26			
13. Early warning reserve [Line 11 less Line 12]				

Form 1, Part I – Statement C

Notes and instructions

- (1) The early warning system is designed to provide advance warning of a *Dealer Member* encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage *Dealer Members* to build a capital cushion.
- (2) **Lines 2 and 3** - These items are deducted from RAC because they are illiquid or the receipt is either out of the *Dealer Member's* control or contingent.
- (3) **Line 4** - Pursuant to the notes and instructions for the completion of Statement B, Line 21, where the entity would otherwise qualify as an *acceptable securities location* except for the fact that the *Dealer Member* has not entered into a written custodial agreement with the entity, as required by the *Corporation requirements*, the *Dealer Member* will be required to deduct an amount up to 10% of the *market value* of the securities held in custody with the entity, in the calculation of its *early warning reserve*. Refer to the detailed calculation formula set out to the notes and instructions for the completion of Statement B, Line 21 to determine the capital requirement to be reported on Statement C, Line 4.
- (4) **Lines 5 to 8** - Non-current liabilities (other than subordinated loans, and non-current portion of finance leases and lease-related liabilities) are added back to RAC as they are not current obligations of the *Dealer Member* and can be used as financing. The non-current liabilities are adjusted for the portion which has already been added back to RAC on Statement B by *Mutual Fund Dealer Members* using the phased approach.
- (5) **Line 9** - This add-back ensures that the *Dealer Member* is not penalized at the early warning level for accruing income.
- (6) **Line 10** - This add-back ensures that the *Dealer Member* is not penalized twice for other allowable assets that result in a provider of capital charge. The provider of capital concentration charge reported on line 10 (b) should be net of the transitionary phase in adjustment on line 19b of Statement B.

Form 1, Part I – Statement D

Dealer Member's name _____

Statement of income and comprehensive income

for the period ended _____

			Current year / month C\$000's	Previous year / month C\$000's
	Reference	Notes		
Commission revenue				
1.	Listed securities	_____	_____	_____
2.	Mutual funds	_____	_____	_____
3.	Segregated funds	_____	_____	_____
4.	Deposit instruments	_____	_____	_____
5.	Listed options	_____	_____	_____
6.	Futures contracts	_____	_____	_____
7.	Over-the-counter <i>derivatives</i>	_____	_____	_____
8.	Other investment products	_____	_____	_____
Principal revenue (realized/unrealized gains (losses))				
9.	Listed securities	_____	_____	_____
10.	Over-the-counter debt securities	_____	_____	_____
11.	Money market	_____	_____	_____
12.	Listed options and related underlying securities	_____	_____	_____
13.	Futures contracts	_____	_____	_____
14.	Over-the-counter <i>derivatives</i>	_____	_____	_____
15.	Other investment products	_____	_____	_____
Corporate finance revenue				
16.	New issues – equity	_____	_____	_____
17.	New issues – debt	_____	_____	_____
18.	Corporate advisory fees	_____	_____	_____
Other revenue				
19.	Interest	_____	_____	_____
20.	Fees from clients	_____	_____	_____
21.	Referral fees	_____	_____	_____
22.	Other fees	_____	_____	_____
23.	Foreign exchange gains/losses	_____	_____	_____
24.	Other [provide details]	_____	_____	_____
25.	Total revenue		_____	_____
Expenses				
26.	Variable compensation	_____	_____	_____
27.	Commissions and fees paid to third parties	_____	_____	_____
28.	Bad debt expense	_____	_____	_____
29.	Interest expense on <i>subordinated debt</i>	_____	_____	_____

See notes and instructions

xxx-xxxx

Form 1, Part I – Statement D (Continued)

30.	Financing cost	_____	_____	_____
31.	Corporate finance cost	_____	_____	_____
32.	Unusual items [provide details]	_____	_____	_____
33.	Pre-tax profit (loss) for the period from discontinued operations	_____	_____	_____
34.	Operating expenses	_____	_____	_____
35.	Profit (loss) for early warning test	_____	_____	_____
36.	Income – Asset revaluation	_____	_____	_____
37.	Expense – Asset revaluation	_____	_____	_____
38.	Interest expense on internal <i>subordinated debt</i>	_____	_____	_____
39.	Bonuses	_____	_____	_____
40.	Net income (loss) before income tax	_____	_____	_____
41.	Income tax expense (recovery), including taxes on profit (loss) from discontinued operations	_____	_____	_____
42.	Profit (loss) for period	_____	_____	_____
			E-11	
Other comprehensive income				
43.	Gain (loss) arising on revaluation of properties	_____	_____	_____
			E-5a	
44.	Actuarial gain (loss) on defined benefit pension plans	_____	_____	_____
			E-5b	
45.	Other comprehensive income for the period, net of tax [Lines 43 plus 44]	_____	_____	_____
46.	Total comprehensive income for the period [Lines 42 plus 45]	_____	_____	_____
The following lines must also be completed when filing the MFR:				
47.	Payment of dividends or partner's drawings	_____	_____	_____
48.	Other [provide details]	_____	_____	_____
49.	Net change to retained earnings (or undivided profits or fund balances) [Sum of Lines 42, 47 and 48]	_____	_____	_____

Form 1, Part I – Statement D
Notes and instructions

(1) Comprehensive income

Comprehensive income represents all changes in equity during a period resulting from transactions and other events, other than changes resulting from transactions with owners in their capacity as owners. Comprehensive income includes profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, two acceptable sources of other comprehensive income (OCI) are:

- (i) the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and
- (ii) the actuarial gain (loss) on defined benefit pension plans.

- (2) **Line 1-8** – Report all gross commission revenue on the appropriate lines. Commissions earned on soft dollar deals with respect to the revenue source should also be included in the appropriate Lines 1 to 8. Commission paid to *registered representatives* must be reported on Line 26 (Expenses: variable compensation). Payouts to other brokers, mutual funds and segregated funds etc. must be reported on Line 27 (Expenses: commissions and fees paid to third parties).
- (3) **Line 1** – Include all gross commissions earned on listed Canadian and foreign securities (including exchange-traded funds).
- (4) **Line 2** – Include all gross commissions and trailer fees earned on mutual fund transactions (excluding exchange-traded funds which are reported on Line 1).
- (5) **Line 3** – Include all gross commissions and trailer fees earned on segregated fund transactions.
- (6) **Line 4** – Include all gross commissions earned on deposit instrument transactions.
- (7) **Line 5** – Include all gross commissions earned on listed option contracts cleared through the Canadian Derivatives Clearing Corporation (CDCC) and foreign listed option transactions.
- (8) **Line 6** – Include all gross commissions earned on listed futures contracts cleared through the CDCC and foreign listed futures contracts.
- (9) **Line 7** – Include gross commissions earned on over-the-counter options, forwards, contracts-for-difference, FX spot, and swaps.
- (10) **Line 8** – Include gross commissions earned on transactions in any other investment products not included in Lines 1-7.
- (11) **Lines 9-15** – Report all principal revenue (realized/unrealized gains and losses) on the appropriate lines. Include any adjustment of inventories to *market value*. The financing costs must be reported separately on Line 30 (Expenses: financing cost).
- (12) **Line 9** – Include all principal revenue (including dividends) from listed Canadian and foreign securities except those indicated on Line 12 (Listed options and related underlying securities).
- (13) **Line 10** – Include revenue on all debt instruments, other than money market instruments.
- (14) **Line 11** – Include revenue on all money market activities. Money market commissions should also be shown here.
- (15) **Line 12** – Include all principal revenue (including dividends) from listed options cleared through CDCC and foreign listed option transactions, as well as related underlying security transactions in market makers' and *Dealer Member's* inventory accounts.
- (16) **Line 13** – Include all principal revenue on futures contracts.
- (17) **Line 14** – Include all principal revenue from over-the-counter *derivatives*, such as forward contracts and swaps.
- (18) **Line 15** – Include all principal revenue from other investment products not included on Lines 9-14.
- (19) **Line 16** – Include revenue relating to equity new issue business - underwriting and/or management fees, banking group profits, private placement fees, trading profits on new issue inventories (trading on an "if, as and when basis"), selling group spreads and/or commissions, and convertible debts.
Syndicate expenses must be reported separately on Line 31 (Expenses: corporate finance cost).
- (20) **Line 17** – Include revenue relating to debt new issue business - Corporate and government issues, and Canada Savings Bond (CSB) commissions.
Amounts paid to CSB sub-agent fees and for syndicate expenses must be reported separately on Line 31 (Expenses: corporate finance cost).
- (21) **Line 18** – Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees.
The related expenses must be reported separately on Line 31 (Expenses: corporate finance cost).

Form 1, Part I – Statement D
Notes and instructions (Continued)

- (22) **Line 19** – Include all interest revenue, which is not otherwise related to a specific liability trading activity (i.e. other than debt, money market, and *derivatives*).
- All interest revenue from carrying retail and *institutional client* account balances should be reported on this line. For example, interest revenue earned from client debit balances.
- The related interest cost for carrying retail and *institutional client* accounts should be reported separately on Line 30 (Expenses: financing cost).
- (23) **Line 20** – Include proxy fees, portfolio service fees, *segregation* and *safekeeping* fees, RRSP fees and any charges to clients that are not related to commission or interest.
- (24) **Line 21** – Include all fees earned as a result of referring clients to another entity for products or services.
- (25) **Line 22** – Include management fees, consulting fees and other fees charged to parties other than clients.
- (26) **Line 23** – Include gains/losses from foreign exchange transactions.
- (27) **Line 24** – Include all other revenue not reported in lines above.
- (28) **Line 26** – Include commissions, bonuses and other variable compensation of a contractual nature.
- Examples would encompass commission payouts to *registered representatives* and payments to institutional and professional trading personnel.
- All contractual bonuses should be accrued monthly.
- Discretionary bonuses should be reported separately on Line 39 (Expenses: bonuses).
- (29) **Line 27** – Include payouts to other brokers and mutual funds.
- (30) **Line 29** – Include all interest on external *subordinated debt*, as well as non-discretionary contractual interest on internal *subordinated debt*.
- (31) **Line 30** – Include the financing cost for all inventory trading (related to Lines 9-15) and the cost of carrying client balances (related to Line 19).
- (32) **Line 31** – Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.
- (33) **Line 32** – Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.
- Discontinued operations, such as a branch closure, should be reported separately on Line 33 (Expenses: Pre-tax profit/loss for the period from discontinued operations).
- (34) **Line 33** – A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, branch closure. The profit/loss on discontinued operations for the period is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recovery) on Line 41.
- (35) **Line 34** – Include all operating expenses (including those related to soft dollar deals).
- Over-certification cost relating to debt instruments should be reported on this line.
- Transaction cost for inventory trading (specifically for inventory that are categorized as held-for-trading) should be included on this line.
- The expense related to share-based payments (such as stock option or share reward) to *employees* and *non-employees* should be included on this line.
- (36) **Line 35** – This is the profit/loss number used for the early warning profitability tests.
- (37) **Line 36** – When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.
- (38) **Line 37** – When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.
- (39) **Line 38** – Include interest expense on *subordinated debt* with related parties for which the interest charges can be waived if required.
- (40) **Line 39** – This category should include discretionary bonuses and all bonuses to shareholders in accordance with share

Form 1, Part I – Statement D
Notes and instructions (Continued)

ownership. These bonuses are in contrast to those reported on Line 26 (Expenses: variable compensation).

- (41) **Line 41** – Include only income taxes and the tax component relating to the profit/loss on discontinued operations for the period.
Realty and capital taxes should be included on Line 34 (Expenses: operating expenses).
- (42) **Line 42** – For a *Dealer Member* that is structured as a not-for-profit organization, the profit (loss) for the period reported on this line represents the excess of the revenue over the expenses.
- (43) **Line 43** – When a *Dealer Member* uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.
- (44) **Line 44** – When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.
- (45) **Line 45** – For MFR reporting, other comprehensive income for the period on Line 45 is the net change to reserves on Statement A Line 73.
- (46) **Line 48** – To be used for *monthly financial report* filing only.
- (47) **Line 49** – To be used for *monthly financial report* filing only: Include direct charges or credits to retained earnings.
Any adjustment required to reconcile the MFR's retained earnings to the audited Form 1 retained earnings must be posted to the individual Statement D line items on the first MFR that is filed after the adjustment is known.

Form 1, Part I – Statement E

Dealer Member's name _____

Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) or fund balances (not-for-profits)

for the year ended _____

A. Changes in issued capital

		Share capital or partnership capital [a]	Share premium [b]	Issued capital [c] = [a] + [b]
	Notes	C\$000's	C\$000's	C\$000's
1. Beginning balance	_____	_____	_____	_____
2. Increases (decreases) during the period [provide details]				
(a)	_____	_____	_____	_____
(b)	_____	_____	_____	_____
(c)	_____	_____	_____	_____
3. Ending balance		_____	_____	_____

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B. Changes in reserves

		General [a]	Properties revaluation [b]	Employee benefits [c]	Employee defined benefit pension [d]	Total reserves [e] = [a] + [b] + [c] + [d]
	Notes	C\$000's	C\$000's	C\$000's	C\$000's	C\$000's
4. Beginning balance	_____	_____	_____	_____	_____	_____
5. Changes during the period						
(a) Other comprehensive income for the year – properties revaluation	_____	_____	_____	_____	_____	_____
			D-43			
(b) Other comprehensive income for the year – actuarial gain (loss) on defined benefit pension plans	_____	_____	_____	_____	_____	_____
					D-44	
(c) Recognition of share- based payments	_____	_____	_____	_____	_____	_____
				D-34		
(d) Transfer from/to retained earnings	_____	_____	_____	_____	_____	_____
		E-12				
(e) Other [provide details]	_____	_____	_____	_____	_____	_____
6. Ending balance	_____	_____	_____	_____	_____	_____

See notes and instructions

xxx-xxxx

Form 1, Part I – Statement E (Continued)

B. Changes in reserves

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C. Changes in retained earnings [or undivided profits or fund balances]

		Operating fund (for NFP only) [a]	Internally restricted fund (for NFP only) [b]	Externally restricted fund (for NFP only) [c]	Retained earnings [undivided profits or fund balances] (Current year) [d]	Retained earnings [undivided profits or fund balances] (Previous year)
	Notes	C\$000's	C\$000's	C\$000's	C\$000's	C\$000's
7.	Beginning balance					
8.	Effect of change in accounting policy [provide details]					
	(a)	N/A	N/A	N/A	N/A	
	(b)	N/A	N/A	N/A	N/A	
9.	As restated	N/A	N/A	N/A	N/A	
10.	Payment of dividends or partners drawings	N/A	N/A	N/A		
11.	Profit or loss (excess of revenue over expenses) for the year					
					D-42	
12.	Other direct charges or credits to retained earnings (or undivided profits or fund balances) [provide details]					
	(a)					
	(b)					
	(c)					
13.	Ending balance					

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Form 1, Part I – Statement E
Notes and instructions

(1) Section A – Changes in issued capital

(i) Change in share or partnership capital

A *Dealer Member* must obtain prior approval from the *Corporation* for significant changes in any class of common and preferred share or partnership capital in accordance with section 2107.

(ii) Share premium

When the *Dealer Member* sells its shares (initial issuance or from treasury), share premium is the excess amount received by the *Dealer Member* over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

(2) Section B – Changes in reserves

(i) General reserve

General reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. Appropriation directly from the income statement is not permitted for general reserves.

(ii) Reserve – employee benefits

When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a *Dealer Member* has stock option or share award granted to its *employees* by issuing new shares, the *Dealer Member* recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in a reserve account.

(iii) Reserve – properties revaluation

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a *Dealer Member* will account the initial increase in value as other comprehensive income (OCI) and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

(3) Section C – Changes in retained earnings or undivided profits or fund balances

(i) Change in accounting policy and retroactive adjustment of prior year's retained earnings

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings. The beginning balance of the current year must be the ending balance of the prior year.

(ii) Fund balances

A *Dealer Member* structured as a not-for-profit organization must complete the columns for fund balances ([a], [b] and [c]) to show the changes in the fund balances. These columns are not applicable for a *Dealer Member* structured as a corporation or partnership. The total of the fund balances ([a]+[b]+[c]) must be reported in column [d] as the current total change in fund balances.

(iii) Retained earnings or undivided profits

A *Dealer Member* structured as a corporation or partnership must report their balances related to the current year change in retained earnings in column [d]. The summation of the fund balances ([a]+[b]+[c]) is only applicable to a *Dealer Member* structured as a not-for-profit organization.

Form 1, Part I – Statement F

Investment Dealer Member's name _____

Statement of free credit segregation amount – Investment Dealer Members

at _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year C\$000's</u>
A. Amount required to segregate based on general free credit limit			
General client free credit limit			
1. Early warning reserve of \$_____ multiplied by 12 [Report NIL if amount is negative]	C-13		_____
Less client free credit balances:			
2. Dealer Member's own	Sch.4	_____	_____
3. Carried for Type 3 Introducers		_____	_____
4. Total client free credit balances [Section A, Line 2 plus Section A, Line 3]			_____
5. Amount required to segregate based on general client free credit limit [Section A, Line 4 minus Section A, Line 1; report NIL if result is negative]			_____
B. Amount required to segregate based on margin lending adjusted client free credit limit			
Client free credit limit for margin lending purposes			
1. Early warning reserve of \$_____ multiplied by 20 [Report NIL if amount is negative]	C-13		_____
Less client free credit balances used to finance client margin loans:			
2. Total settlement date client margin debit balances		_____	_____
3. Total client free credit balances [Include amount from Section A, Line 4 above]		_____	_____
4. Subtotal - Client free credit balances used to finance client margin loans [Lesser of Section B, Line 2 and Section B, Line 3]			_____
5. Amount required to segregate relating to margin lending [Section B, Line 4 minus Section B, Line 1; report NIL if result is negative]			_____
Free credit limit for all other purposes			
6. Early warning reserve [Report NIL if amount is negative]	C-13	_____	_____
7. Total settlement date client margin debit balances divided by 20		_____	_____
8. Portion of early warning reserve available to support all other uses of client free credits [Section B, Line 6 minus Section B, Line 7; report NIL if result is negative]			_____
9. Client free credit limit for all other purposes [Section B, Line 8 multiplied by 12]			_____
10. Client free credits not used to finance margin loans [Section A, Line 4 minus Section B, Line 4]			_____
11. Amount required to segregate relating to all other purposes [Section B, Line 10 minus Section B, Line 9; report NIL if result is negative]			_____
12. Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 5 plus Section B, Line 11]			_____
C. Amount required to segregate			
1. Amount required to segregate based on general client free credit limit [Section A, Line 5]			_____
2. Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12]			_____
3. Amount required to segregate [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1]			_____

Form 1, Part I – Statement F (Continued)

D. Amount in segregation

1.	Client funds held in trust in an account with an <i>acceptable institution</i>	A-3	-----	-----
2.	<i>Market value</i> of securities owned and in <i>segregation</i>	Sch.2	-----	-----
3.	Amount in <i>segregation</i> [Section D, Line 1 plus Section D, Line 2]			-----
4.	Net <i>segregation</i> excess (deficiency) [Section D, Line 3 minus Section C, Line 3]	B-22		<u>-----</u>

Form 1, Part I – Statement F
Notes and instructions

- (1) The client free credit limit and *segregation* requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests. *Investment Dealer Members* must report their free credit segregation amount on this statement. If a *Mutual Fund Dealer Member* chooses to use client free credit balances in its operations under subsection 4382(2), the *Mutual Fund Dealer Member* must report their free credit segregation amount on this statement in accordance with the same requirements as *Investment Dealer Members*.
- (2) **Section A, Lines 2 and 3** - *Free credit balances* in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*.

In CISO Bulletin 24-0067, we propose to add the following additional note under Note (2) into IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

Where the *Dealer Member* has borrowed the client's fully paid or excess margin securities and cash collateral is provided to the client by the *Dealer Member*, the cash collateral should not be included in *free credit balances*.

For purposes of this statement, a free credit is:

- (i) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.
 - (ii) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.
- (3) **Section A, Line 5** - If nil, no further calculation on this Statement need be done.
- (4) **Section B, Line 2** - Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.
- (5) **Section D, Line 1** - The cash must be segregated in trust for clients in a separate account or accounts with a Canadian financial institution qualifying as an *acceptable institution* and this trust property must be clearly identified as such at the *acceptable institution*.

This calculation should exclude funds held in trust for RRSP and other similar accounts.

- (6) **Section D, Line 2** - The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the *Investment Dealer Member's* property:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other	AAA	Foreign government of a <i>Basel Accord</i> country

Form 1, Part I – Statement F
Notes and instructions (Continued)

	national foreign government not identified in category 1		
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> Securities issued by a <i>provider of capital</i>, as defined in the notes and instructions to Schedule 14 are not eligible

- (7) **Section D, Line 4** – If negative, then a *segregation* deficiency exists, and the *Investment Dealer Member* must correct the *segregation* deficiency within 1 *business day* following the determination of the deficiency. Where the deficiency exists for more than one business day, it must be provided out of the *Investment Dealer Member's* capital. The *Investment Dealer Member* must provide an explanation of how the deficiency was corrected and the date of correction.

Form 1, Part I - Notes

Dealer Member's name

Notes to the Form 1 financial statements

at _____

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance and segregation of cash and investment products – Mutual Fund Dealer Members

To: _____ <Dealer Member> _____

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of providing _____ <Dealer Member> (Dealer Member) with information to assist the _____ <name of Self-Regulatory Organization> and the _____ <name of Investor Protection Fund> in their assessment of the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance and segregation of client cash and investment products as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

Responsibilities of the engaging party

The Dealer Member, _____ <name of Self-Regulatory Organization> and _____ <name of Investor Protection Fund> have acknowledged that the agreed-upon procedures, as required by _____ <name of Self-Regulatory Organization>, are appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's responsibilities

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

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

Professional ethics and quality management

[Free form text]

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

Our firm applies Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

We have performed the procedures described below, which were agreed upon with the Dealer Member with respect to the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance and segregation of client cash and investment products as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below.

Form 1, Part II (Continued)

#	Procedures	Findings [State the results of the procedures performed]
(1)	Obtain the written internal control policies and procedures of the Dealer Member, from management of the Dealer Member, and inspect whether they include internal controls regarding: (i) maintaining insurance coverage as required in Part C of Dealer and Consolidated Rule 4400, and (ii) segregation of client cash and investment products as required in Part A and Part C of Dealer and Consolidated Rule 4300.	
(2)	Obtain written representation from management of the Dealer Member that “the Dealer Member’s internal control policies and procedures regarding insurance and segregation of client cash and investment products meet the minimum requirements in Part A and C of Dealer and Consolidated Rule 4300 and Part C of Dealer and Consolidated Rule 4400 as at <u><period end date></u> and have been implemented.” The name and title of those of management who provided the written representation are to be reported in the findings.	
(3)	Obtain the financial institution bond insurance policy (FIB) as at <u><period end date></u>, from management of the Dealer Member, and inspect whether the FIB: (i) clauses exist as per section 4456 of the Dealer and Consolidated Rules for: (a) Fidelity (b) On premises (c) In transit (d) Forgery or alteration (e) Securities (ii) includes the minimum coverage limits as per section 4457 or 4458 of the Dealer and Consolidated Rules.	
(4)	From a listing of all Dealer Member insurance brokers as at <u><period end date></u>, provided by management of the Dealer Member, confirm items (a) to (j) below for each insurance broker and report differences from details reported in the FIB and Form 1: (a) Insurance company name (b) Name of insured (c) FIB/registered mail (d) Expiry date (e) Coverage (f) Type of aggregate limit (g) Provision for full reinstatement (h) Premium (i) Deductible (j) Losses and claims	
(5)	From the report of total client net equity held as at <u><period end date></u>, provided by management of the Dealer Member. Agree the total client net equity held by the Dealer Member as at <u><period end date></u> to Schedule 12 of Form 1.	
(6)	From a listing of all segregation locations as at <u><period end date></u>, provided	

Form 1, Part II (Continued)

	by management of the Dealer Member, inspect that each segregation location meets the definition of “acceptable securities locations” as defined in the general notes and definitions to Form 1.	
(7)	From a listing of all cash segregation locations as at ____<period end date>____, provided by management of the Member: (i) inspect that each cash segregation location meets the definition of “acceptable institutions” as defined in the general notes and definitions of Form 1; and (ii) for each account: (a) inspect that the account was designated as “in trust”; and (b) inspect that the account was interest bearing.	

[Optional: Restriction on Use]

[Free form text]

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

Auditing firm

Date

Signature

Place of issue

[Optional: Additional information]

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance, segregation of investment products, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members

To: _____ <Dealer Member> _____

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of providing _____ <Dealer Member> _____ (Dealer Member) with information to assist the _____ <name of Self-Regulatory Organization> _____ and the _____ <name of Investor Protection Fund> _____ in their assessment of the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance, segregation of client investment products, and maintaining guarantee/guarantor relationships for margin relief as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

Responsibilities of the engaging party

The Dealer Member, _____ <name of Self-Regulatory Organization> _____ and _____ <name of Investor Protection Fund> _____ have acknowledged that the agreed-upon procedures, as required by _____ <name of Self-Regulatory Organization> _____, are appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's responsibilities

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

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

Professional ethics and quality management

[Free form text]

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

Our firm applies Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

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

Form 1, Part II (Continued)

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

Form 1, Part II (Continued)

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

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

Form 1, Part II (Continued)

	as at ____<period end date>____, provided by management of the Dealer Member, and trace each segregated investment product to the SRP as at ____<period end date>____ and to the Segregation Report as at ____<period end date>____, provided by management of the Dealer Member to inspect that the investment product position was held in segregation.	
(12)	Obtain a list of guarantee relationships, provided by management of the Dealer Member. From the listing obtained, select 10 guarantee relationships used by the Dealer Member to reduce the margin required during the period reported on the Form 1, for monthly financial reporting purposes. For each of the 10 guarantee relationships: (i) Obtain written confirmation of the guarantee relationship from the guarantor of the account(s) guaranteed and that the guarantee was in place as at ____<period end date>____. (ii) Compare the wording of the guarantee agreements to the requirements in section 5825 of the Dealer and Consolidated Rules.	

[Optional: Restriction on Use]

[Free form text]

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

Auditing firm

Date

Signature

Place of issue

[Optional: Additional information]

Form 1, Part II – Schedule 1

Dealer Member's name

Date

Analysis of loans receivable, securities borrowed and resale agreements

	Amount of loan receivable or cash delivered as collateral	Market value of securities delivered as collateral	Market value of securities received as collateral or borrowed	Required to margin
	C\$000's [see note 3]	C\$000's [see note 4]	C\$000's [see note 4]	C\$000's
Loan receivable				
1. <i>Acceptable institutions</i>		N/A		Nil
2. <i>Acceptable counterparties</i>		N/A		
3. <i>Regulated entities</i>		N/A		
4. Others [see note 15]		N/A		
Securities borrowed				
5. <i>Acceptable institutions</i>				Nil
6. <i>Acceptable counterparties</i>				
7. <i>Regulated entities</i>				
8. Others [see note 15]				
Resale agreements				
9. <i>Acceptable institutions</i>		N/A		Nil
10. <i>Acceptable counterparties</i>		N/A		
11. <i>Regulated entities</i>		N/A		
12. Others [see note 15]		N/A		
13. Total [Sum of lines 1 through 12]	A-6			B-10

Form 1, Part II – Schedule 1

Notes and instructions

- (1) This schedule is to be completed for secured loan receivable transactions where the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.

- (2) For the purpose of this schedule, the following terms have the meanings set out below:

“cash loan receivable”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend cash and receive securities as collateral from the counterparty.
“excess collateral deficiency”	(i) For a <i>cash loan receivable</i>, any excess of the amount of the loan over the <i>market value</i> of the actual collateral received from the transaction counterparty, or (ii) For a <i>securities borrow arrangement</i>, any excess of the <i>market value</i> of the actual collateral provided to the transaction counterparty over: (a) 102% of the <i>market value</i> of the securities borrowed, where cash is provided as collateral, or (b) 105% of the <i>market value</i> of the securities borrowed, where securities are provided as collateral.
“securities borrow arrangement”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow securities and deliver cash or securities as collateral to the counterparty.

- (3) Include accrued interest in amount of loan receivable.

- (4) *Market value* of securities delivered or received as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

- (i) set out the rights of each party to retain and realize on securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
- (iv) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (iv)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (iv)(b) above, the written agreement must provide for the securities borrowed, or the securities purchased under a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

In CRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,
- (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and
- (v) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities borrowed in the case of a *securities loan arrangement*, or the securities purchased in the case of a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) Cash loan receivable

(i) Margin requirements

The margin requirements for a *cash loan receivable* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) Securities borrow arrangements

(i) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the third party custodian agent, if:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the agent and the loan collateral will be liquidated and the resulting proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the agent to the *Dealer Member*.

(iii) Agency securities borrow arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities borrow arrangement* to the underlying principal lender and the agency *securities borrow arrangement* must be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the underlying principal lender:

- (a) where an agent is also the third party custodian and the requirements in note 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 7(ii) are not all met.

(iv) Margin requirements for securities borrow arrangements

The margin requirements for a *securities borrow arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
- (I) for principal *securities borrow arrangements*, the counterparty is the principal in the *securities borrow arrangement*,
 - (II) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin ¹
Acceptable counterparty	Excess collateral deficiency ¹
Regulated entity	Excess collateral deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

In CISO Bulletin 24-0067, we propose to add the following clause into note 7 in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

- (c) Where the *Dealer Member* borrows fully paid or excess margin securities from a client pursuant to Part B.2 of 4600, the margin required is equal to the excess of the collateral required under subsection 4624(3) over the *market value* of the actual collateral segregated for the client in compliance with subsection 4624(5).

(8) Securities resale arrangements

(i) Written agreement requirements

If a *Dealer Member* has a written agreement for a securities resale arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreement:
 - (I) the cash proceeds from the purchased securities must be held by the third party custodian agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
- (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
- (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(iii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreements:
 - (I) the cash proceeds from the purchased securities must be held by the agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

(iv) Agency securities resale arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

- (a) where an agent is also the third party custodian and the requirements in note 8(ii) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(iii) are not all met.

(v) Margin requirements for securities resale arrangements

The margin requirements for a securities resale arrangement are as follows:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in notes 5 and 8(i), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than 30 calendar days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 5 and 8(i), for margin purposes:

- (I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,
- (II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are met, the counterparty is the agent,
- (III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

In CRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(8) Securities resale arrangements

- (i) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the cash proceeds from the purchased securities must be held by the third party custodian agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the cash proceeds from the purchased securities must be held by the agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

(iii) Agency securities resale arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

- (a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities resale arrangements

The margin requirements for a securities resale arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than 30 calendar days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,
 - (II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 2, 3, 6 and 7** - In the case of a *cash loan receivable* or a *securities borrow arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 10 and 11** - In the case of a resale transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 4, 8 and 12** - In the case of a *cash loan receivable* or a securities borrowing or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (14) **Lines 5, 6 and 7** - In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
- (15) **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(ii) and (iii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

In CISO Bulletin 24-0067, we propose to repeal notes 13 to 15 and replace with notes 13 to 16 as follows in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

- (13) **Lines 4, 8 and 12** - In the case of a *cash loan receivable* or a securities borrowing (excluding borrowing arrangements for client fully paid and excess margin securities) or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty*, or *regulated entity* where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.

- (14) **Line 8** - In the case of securities borrowing arrangements for client fully paid and excess margin securities where a deficiency exists as calculated under Note 7(iv)(c), action must be taken to correct the deficiency. If no action is taken, the amount of deficiency must be immediately provided out of the *Dealer Member's capital*. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's capital*.
- (15) **Lines 5, 6 and 7** - In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's capital* for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
- (16) **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 2

Dealer Member's name

Date

Analysis of securities owned and sold short at market value

Category	Notes	Market value		Margin required C\$000's
		Long C\$000's	Short C\$000's	
1. Money market				
Accrued interest				Nil
Total money market				
2. Debt				
Accrued interest				Nil
Total debt				
3. Equities				
Accrued interest on convertible debentures				Nil
Total equities				
4. Money market mutual funds			Nil	
Other mutual funds			Nil	
Total mutual funds			Nil	
5. Options				
6. Futures contracts		Nil	Nil	
7. Over-the-counter <i>derivatives</i>				
8. Registered traders, specialists and market makers		Nil	Nil	
9. Other				
10. Total				
			A-53	B-11
11. Less: Securities, including accrued interest, segregated for client free credit ratio calculation				
		A-8 and F-Sec. D-2		
12. Adjusted total				
		A-7		

Supplementary information

13. *Market value* of securities included above but held on deposit as variable base deposits or margin deposits with *acceptable clearing corporations* or *regulated entities* or as a comfort deposit with a *carrying broker*
14. Margin reduction from offsets against *Trader* reserves and PDO guarantees

Form 1, Part II – Schedule 2

Notes and instructions

(1) **Valuation and margin rates**

All securities are to be valued at *market value* as of the reporting date. The margin rates to be used are those outlined in *Corporation requirements*.

(2) **All securities owned and sold short**

Schedule 2 summarizes all securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and *total margin required* as indicated. Where a *Dealer Member* invests its excess cash in *investment product* positions, such positions are considered to be inventory positions and must be reported on Schedule 2.

(3) **Margining of option positions**

Where the *Dealer Member* utilizes the computerized options margining program of an *acceptable exchange* operating in Canada, the margin requirement produced by such program may be used provided the positions in the *Dealer Member's* records agree with the positions in the exchange's computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by the exchange's computer-margining program must be provided. For the purposes of this paragraph, an *acceptable exchange* operating in Canada is limited to The Montreal Exchange (MX).

(4) **Request for detailed information**

The examiners of the *Corporation* may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

(5) **Margin offsets**

Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

(6) **Line 1 - Money market** is to include Canadian & US treasury bills, bankers acceptances, bank paper (domestic & foreign), municipal and commercial paper or other similar instruments, except money market mutual funds which should be reported on Line 4.

(7) **Supplementary instructions for reporting money market commitments:**

"Market price" for money market commitments (fixed-term repurchases, calls, etc.) shall be calculated as follows:

- (i) Fixed date repurchases (no borrower call feature) - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (ii) Open repurchases (no borrower call feature) - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (i) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (iii) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration (the dealer has a loss), the margin required is the lesser of:
 - (a) the prescribed rate appropriate to the term of the security, and
 - (b) the spread between holder consideration and dealer consideration (the loss) based on the call features subject to a minimum of 1/4 of 1% margin.

(8) **Line 8 - Registered traders, specialists and market makers margin requirements are:**

- (i) The minimum margin requirement for each Toronto Stock Exchange (TSX) registered trader is \$50,000.
- (ii) The minimum margin requirement for each MX registered specialist is the lesser of \$50,000 or an amount sufficient to

Form 1, Part II – Schedule 2
Notes and instructions (Continued)

assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.

- (iii) The market maker minimum margin requirement is for the TSX \$50,000 for each specialist appointed and for the MX \$10,000 for each security and/or class of options appointed (not to exceed \$25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have an appointment.

The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the *Dealer Member*.

The *market values* related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.

- (9) **Line 11** – Report securities the *Dealer Member* has segregated to meet free credit segregation requirements on Statement F. Eligible securities are described in Statement F notes and instructions.
- (10) **Line 14** – Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the trader permitting the *Dealer Member* to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from *guarantees* relating to inventory accounts by partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees).

Form 1, Part II – Schedule 2A

Dealer Member's name

Date

Margin for concentration in underwriting commitments

Individual concentration

Description [see note 3]	Market value C\$000's	Normal margin C\$000's	40% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 2]	Concentration margin C\$000's
1. Subtotal						

Overall concentration

Description [see note 5]	Market value C\$000's	Normal margin C\$000's	100% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 4]	Concentration margin C\$000's
2. Subtotal						
3. Concentration margin [Sum of lines 1 and 2]						

B-12

Form 1, Part II – Schedule 2A

Notes and instructions

(1) This schedule must be completed for underwriting commitments requiring concentration margin.

(2) Individual commitment concentration

Where the normal margin required on any one commitment is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the normal margin on the commitment exceeds 40% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.

(3) Report details by individual commitments.

(4) Overall commitment concentration

Where the normal margin required on some or all commitments is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the aggregate normal margin on these commitments exceeds 100% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.

(5) It is not necessary to report details of individual commitments. Report the aggregate totals.

Form 1, Part II – Schedule 2B

Dealer Member's name

Date _____

Underwriting issues margined at less than the normal margin rates

[illegible]

Notes and instructions:

- (1) The purpose of this schedule is to disclose all unsold portions of new and secondary issues held by underwriters that are margined at less than the normal margin rates applicable to those securities as permitted in the *Corporation requirements*. Expiry date refers to the date of any out clause or the expiry date on a bank letter.
- (2) For positions in this schedule, the margin rate shall give effect to any bank letters or out clauses, and the margin required shall indicate the margin remaining after offsets and/or hedging strategies.

Form 1, Part II – Schedule 3

Mutual Fund Dealer Member's name

Date

Analysis of clients' trading accounts – Mutual Fund Dealer Members

Category	Balances		Margin
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable institutions</i>	_____	_____	_____
2. <i>Acceptable counterparties</i>	_____	_____	_____
3. Other clients:			
(a) non-registered cash accounts	_____	_____	_____
(b) RRSP and other registered cash accounts	_____	_____	_____
4. Advanced Redemption Proceeds Receivable:			
(a) non-registered accounts	_____	N/A	_____
(b) RRSP and other registered accounts	_____	N/A	_____
5. Total	_____	_____	_____
	A-9	A-54	B-13
6. Supplementary disclosure:			
(a) Name of RRSP trustee(s)			
1. _____			
2. _____			
3. _____			

Form 1, Part II – Schedule 3

Notes and instructions

- (1) This schedule must be completed by a *Mutual Fund Dealer Member* that is not offering margin lending to a client under subsection 5112(2). Although the *Mutual Fund Dealer Member* is not offering margin lending, the *Mutual Fund Dealer Member* may inadvertently extend credit to a client when client payments fail (e.g. NSF cheques). When any portion of the money balance in the account of the client is overdue the *Mutual Fund Dealer Member* must provide margin on this schedule.
- (2) A *Mutual Fund Dealer Member* may choose to calculate the amount of margin as 100% of the client debit balance, instead of applying the different margin methodologies described in Notes 3 to 6. If the *Mutual Fund Dealer Member* applies the equity deficiency calculation in Note 5(i), the *Mutual Fund Dealer Member* must report any concentration exposures on Schedule 11 in accordance with the same requirements as *Investment Dealer Members*.
- (3) **Line 1** – No mark to market or margin is required on accounts with *acceptable institutions* except any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date.
Any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade, shall be margined.
- (4) **Line 2** – In the case of a transaction in the account of an *acceptable counterparty*, the amount of margin to be provided, commencing on settlement date, may be calculated as the equity deficiency, which is equal to the difference between (i) the net *market value* of all settlement date *investment product* positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).
Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade, shall be margined.
- (5) **Line 3(a)** – When any portion of the money balance in an account of a client, other than an *acceptable institution* or *acceptable counterparty* or *regulated entity*, is overdue for a period of less than 6 *business days* past *regular settlement date*, the following margin requirements may be applied:
 - (i) Commencing on *regular settlement date*, the margin required is the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all settlement date *investment product* positions in the client's account(s) and (b) the net money balance on a settlement date basis in the same account(s), and
 - (ii) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be 100% of the debit balance.
- (6) **Line 3(b)** – In circumstances where a debit balance arises in a registered account, the following margin requirements may be applied:
 - (i) where the debit balance is identifiable to a particular *investment product* transaction, the margin requirements as set out in Note 5 may be applied to the transaction,
 - (ii) where the debit balance arises from items that are contemplated by the *Corporation requirements* and *securities laws* and are set out in the trust agreement between the *Mutual Fund Dealer Member* and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquidate trust property, then the margin account rules may be applied,
 - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (7) **Line 4** – Where a *Mutual Fund Dealer Member* advances redemption proceeds to a client in accordance with section 5112(1), these proceeds are reported as debit balances on Line 4(a) and (b). The margin required to be reported by the *Mutual Fund Dealer Member* is equal to the amount of the advanced redemption proceeds.
- (8) **Line 6** – The name of the RRSP trustee(s) used by the *Mutual Fund Dealer Member* must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).

Form 1, Part II – Schedule 4

Investment Dealer Member's name

Date

Analysis of clients' trading accounts – Investment Dealer Members

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable institutions</i>			
2. <i>Acceptable counterparties</i>			
3. Other clients:			
(a) Margin accounts			
(b) Cash accounts			
(c) Unsecured debits and shorts		N/A	
4. Futures accounts			
5. Margin on extended settlements	N/A	N/A	
6. Free credits	N/A		N/A
		F-Sec. A-2	
6. (a) Free credits, pending trades [if applicable]	N/A		N/A
7. RRSP and other similar accounts			
8. Less - allowance for bad debts			
9. Total			
	A-9	A-54	B-13
10. Supplementary disclosure:			
(a) Name of RRSP trustee(s)			
1. _____			
2. _____			
3. _____			
(b) Total margin reductions from offsets against IA reserves and PDO guarantees			

Form 1, Part II – Schedule 4

Notes and instructions

- (1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by the *Corporation*. *Investment Dealer Members* must report their client balances and associated margin requirements on this schedule. If a *Mutual Fund Dealer Member* chooses to offer margin lending to its clients under subsection 5112(2), the *Mutual Fund Dealer Member* must report their client balances and associated margin requirements on this schedule in accordance with the same requirements as *Investment Dealer Members*.

- (2) **Lines 1 to 4** - Balances including *extended settlement date* transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in note 12 and reported on Line 5.

In CISO Bulletin 24-0067, we propose to amend note (2) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (2) **Lines 1 to 4** - Balances reported on these lines should include:

- (i) *extended settlement date* transactions, and
- (ii) cash collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed client fully paid or excess margin securities.

The margin related to extended settlements should be calculated as described in note 12 and reported on Line 5.

- (3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except

- (i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,
- (ii) futures positions, which are margined as prescribed in subsections 5790(1) and (2).

This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

Any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade shall be margined.

- (4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790(1) and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date *investment product* positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

- (5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:

- (i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required *investment products*, as the case may be.
- (ii) Payment by a customer in respect of any margin account transaction may be by:
 - (a) cash or other immediately available funds,
 - (b) applying the loan value of *investment products* to be deposited,
 - (c) applying the excess loan value in the account or in a guarantor's account.
- (iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
- (iv) Advancing funds or delivering *investment products* from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

In CRO Bulletin 24-0067, we propose to add the additional clause under note (5) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (v) Where the *Dealer Member* borrows excess margin securities from the client's margin account, the collateral provided to the client cannot be used to reduce any margin required in the account.

- (6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity, acceptable counterparty or acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For *Investment Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and *investment product* positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

- (7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

- (i) Cash accounts

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.

- (ii) Delivery against payment (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Investment Dealer Member* on or before settlement date for delivery by the *Investment Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Investment Dealer Member* gives notice to the customer that the *investment products* purchased are available for delivery.

- (iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the *Investment Dealer Member* on or before settlement date for receipt of *investment products* by the *Investment Dealer Member* against payment to the customer shall be settled on the settlement date.

- (iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

- (a) cash or other immediately available funds;
- (b) the application of the proceeds of the sale of the same or other *investment products* held long in any cash account of the customer with the *Investment Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- (c) the transfer of funds from a margin account of the customer with the *Investment Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

- (v) Isolated transactions

A customer shall be permitted in an isolated instance to:

- (a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same *investment product* in any cash account of the customer with the *Investment Dealer Member*;
- (b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- (c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

- (vi) Account restrictions

- (a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the *Investment Dealer Member*, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the *Investment Dealer Member* have been

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the *Investment Dealer Member*, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the *Investment Dealer Member* have been transferred in accordance with note 7(vii).

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Investment Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the *Investment Dealer Member* to one or more newly established margin accounts of the customer with the *Investment Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions*, *acceptable counterparties*, non-Dealer Member brokers, or *regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

- (a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date *investment product* positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

- (A) *Securities* that currently have a margin rate of 60% or less, are weighted at 1.000
- (B) Listed *securities* with a margin rate greater than 60% are weighted as 0.333
- (C) Nasdaq National Market® and Nasdaq SmallCap MarketSM securities with a margin rate of more than 60% are weighted as 0.333
- (D) All other unlisted *securities* with a margin rate of more than 60% are weighted as 0.000.
- (b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;
- (c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

In CIO Bulletin 24-0067, we propose to add the additional clause under note (8)(i) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (d) Where the *Dealer Member* borrows fully paid *securities* from the client's cash account, the collateral provided to the client cannot be used to reduce any margin required on the account.

(ii) DAP and RAP accounts

- (a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date *investment product* positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

- (b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.
- (c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;
- (d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the *Investment Dealer Member* on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the *Investment Dealer Member* and pay for the *investment products* to be delivered, and in such event settlement shall be considered provided for by the customer.

(iv) Trade date margining

For *Investment Dealer Members* determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date *investment product* positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

- (9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.
- (10) **Line 3(c)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short *investment product* positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
- (11) **Line 4** - This line is to include balances for client accounts containing positions and offsets in futures contracts or futures contract options. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

Free credit balances should be included on Line 5.

- (12) **Line 5** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between an *Investment Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 6)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement ¹		
Counterparty	30 days or less	Greater than 30 days
<i>Acceptable counterparty</i>	Market value deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying <i>investment products</i>)

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

- ¹ Calendar days refers to the original term of the extended settlement transaction.
- ² Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

- (13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Investment Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those *Investment Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.
- (14) **Line 6(a)** - For those *Investment Dealer Members* reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.
- (15) **Line 7** - In circumstances where a debit balance arises in an RRSP or similar registered account, the following margin requirements apply:
- (i) where the debit balance is identifiable to a particular *investment product* transaction, the cash account rules as set out in Note 8(i) may be applied to the transaction,
 - (ii) where the debit balance arises from items that are contemplated by the *Corporation requirements* and *securities laws* and are set out in the trust agreement between the *Investment Dealer Member* and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquidate trust property, then the margin account rules may be applied,
 - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (16) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".
- (17) **Line 10(a)** - The name of the RRSP trustee(s) used by the *Investment Dealer Member* must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).
- (18) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Investment Dealer Member* and the IA permitting the *Investment Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and *Officers* of the *Investment Dealer Member* (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the *Investment Dealer Member*.

Form 1, Part II – Schedule 5

Dealer Member's name

Date _____

List of ten largest settlement date trading balances with acceptable institutions and acceptable counterparties

[excluding balances less than 20% of *risk adjusted capital* or \$250,000, whichever is the smaller]

On approved *acceptable institutions/acceptable counterparty* list

Name of institution	Yes/No	Acceptable institution	Acceptable counterparty	Debits C\$000's	Credits C\$000's	Margin C\$000's
Total						

Notes and instructions:

- (1) This schedule is to report only ten balances with an indication whether each balance is with an *acceptable institution* or an *acceptable counterparty*.
- (2) For balances with *acceptable institutions* and *acceptable counterparties* not on the approved lists, as published by the *Corporation*, please provide their latest audited financial statements.

Form 1, Part II – Schedule 6

Mutual Fund Dealer Member's name

Date

Analysis of brokers' and dealers' trading balances – Mutual Fund Dealer Members

Category	Balances		Amount required to fully margin C\$000's
	Debit	Credit	
	C\$000's	C\$000's	
1. <i>Regulated entities</i> [see notes]	_____	_____	_____
2. (a) <i>Dealer Member's</i> own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the <i>Corporation</i>	_____	_____	_____
(b) <i>Dealer Member's</i> own affiliated/related partnerships or corporations - not approved [see note 5 - give details]	_____	_____	_____
3. Mutual funds or their agents [see note 6]	_____	_____	_____
4. Total	_____	_____	_____
	A-10	A-55	B-14

Form 1, Part II – Schedule 6
Notes and instructions

- (1) This schedule is to include amounts owed to the *Mutual Fund Dealer Member* for the sale or redemption of nominee name client securities and amounts owed by the *Mutual Fund Dealer Member* for the purchase of nominee name client securities.
- (2) **Lines 1 and 2 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its *affiliated company*.
- (3) **Line 1** - This line is not to include non-arms’ length transactions which are to be reported on Line 2. Margin on balances with *regulated entities* must be provided as follows:
- (i) In the case of a *regular settlement date* transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an *extended settlement date* transaction between a *Mutual Fund Dealer Member* and a *regulated entity*, commencing on *regular settlement date* the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
 - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.
- (4) **Line 2(a)** - Margin must be provided as outlined for *regulated entities* in note 3 above.
- (5) **Line 2(b)** - If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 3 above.
- If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 3 for *acceptable counterparties*.
- If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities*, *acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 3.
- (6) **Line 3** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

Form 1, Part II – Schedule 7

Investment Dealer Member's name

Date

Analysis of brokers' and dealers' trading balances – Investment Dealer Members

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable clearing corporations</i> trading balances [see notes]			
2. <i>Regulated entities</i> [see notes]			
3. (a) <i>Dealer Member's</i> own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the <i>Corporation</i>			
(b) <i>Dealer Member's</i> own affiliated/related partnerships or corporations - not approved [see note 6 - give details]			
4. (a) Other brokers and dealers not qualifying as <i>regulated entities</i> but qualifying as <i>acceptable counterparties</i> [see note 7 - give details]			
(b) Other brokers and dealers not qualifying as <i>regulated entities</i> or <i>acceptable counterparties</i> [see note 8 - give details]			
5. Mutual funds or their agents [see note 9]			
6. Total			
	A-10	A-55	B-14

Form 1, Part II – Schedule 7
Notes and instructions

- (1) This schedule is to include the *Investment Dealer Member's* trading balances with *regulated entities*, *acceptable clearing corporations*, other brokers and mutual funds for ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or 9.
- (2) **Lines 1, 2, 3 and 4 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its *affiliated company*.
- (3) **Line 1** - For definition, see general notes and definitions.

Margin on such balances should be provided as follows:

- (i) Trades settling through a net settlement system should be treated as if the other party to the trade was an *acceptable institution*. For example, CNS balances with CDS, and CNS balances with National Securities Clearing Corporation.
 - (ii) All transactions done through CDS outside of the CNS system should be treated as if with a single counterparty to be classified as an *acceptable counterparty* (even if some or all of the other parties qualify as an *acceptable institution*).
 - (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation's Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
- (4) **Line 2** - This line is not to include non-arms' length transactions which are to be reported on Line 3. Margin on balances with *regulated entities*, except futures accounts, must be provided as follows:
- (i) In the case of a *regular settlement date* transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an *extended settlement date* transaction between an *Investment Dealer Member* and a *regulated entity*, commencing on *regular settlement date* the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
 - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.

Futures accounts with *regulated entities* containing positions and offsets in *futures contracts* or *futures contract options* are to be margined in accordance with subsection 5790(1) and margin deficiencies are to be reported on this line in accordance with subsection 5790(2).

- (5) **Line 3(a)** - Margin must be provided as outlined for *regulated entities* in note 4 above.
- (6) **Line 3(b)** - If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 4 above.

If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 4 for *acceptable counterparties*.

If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities*, *acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 4.

- (7) **Line 4(a)** - All balances must be margined in the same way as accounts of *acceptable counterparties* (see notes and instructions to Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with approved *inter-dealer bond brokers*.

Approved *inter-dealer bond brokers* are those inter-dealer bond dealers that are approved by the *Corporation* and the Bourse de Montréal Inc. The list of approved *inter-dealer bond brokers* will be published from time to time through the issuance of a regulatory notice.

- (8) **Line 4(b)** - All balances must be margined in the same way as regular clients' accounts (see notes and instructions to

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with *inter-dealer bond brokers* which are not on the list of approved *inter-dealer bond brokers*.

- (9) **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

Form 1, Part II – Schedule 8

Dealer Member's name

Date

Current income taxes

C\$000's

Income tax liability (asset)

1.	Balance payable (recoverable) at last year-end	_____
2.	(a) Payments (made) or received relating to above balance	_____
	(b) Adjustments, including reassessments, relating to prior periods [give details if significant]	_____
3.	Total adjustment to prior years' payable (recoverable) taxes during current year	_____
4.	Subtotal [add or subtract Line 3 from Line 1]	_____
5.	Income tax expense (recovery)	_____
		D-41
6.	Less: Current installments	_____
7.	Other adjustments [give details if significant]	_____
8.	Total adjustment for current year's taxes	_____
9.	Total liability (asset) [add or subtract Line 8 from Line 4]	_____
		A-14, if asset
		A-58, if liability

Form 1, Part II – Schedule 8A

Dealer Member's name

Date

Tax recoveries

	<u>Reference</u>	<u>C\$000's</u>
A. Tax recovery for risk adjusted capital		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 8, Line 5	_____
2. Commission and/or fees receivable (non-allowable assets) of \$_____ multiplied by an effective corporate tax rate of _____%	A-23	_____
3. Tax recovery – Assets [100% of lesser of Lines 1 and 2]		_____
4. Balance of current income tax expense available for margin and securities concentration charge tax recovery [Line 1 minus Line 3]		_____
5. Recoverable taxes from preceding three years of \$_____ net of current year tax recovery (if applicable) of \$_____		_____
6. Total available for margin tax recovery [Line 4 plus Line 5]		_____
7. <i>Total margin required</i> of \$_____ multiplied by an effective corporate tax rate of _____%	B-26	_____
8. Tax recovery – Margin [75% of lesser of Lines 6 and 7]		_____
9. Total tax recovery before tax recovery on securities concentration charge [Line 3 plus Line 8]		_____
		B-28
10. Balance of taxes available for securities concentration charge tax recovery [Line 6 minus Line 8, must be greater than 0, else N/A]		_____
11. Total securities concentration charge of \$_____ multiplied by an effective corporate tax rate of _____%	Sch. 10/Sch. 11	_____
12. Tax recovery – Securities concentration charge [75% of lesser of Lines 10 and 11]		_____
		B-30
13. Total tax recovery <i>risk adjusted capital</i> [Line 3 plus Line 8 plus Line 12]		_____
		C-3
B. Tax recovery for early warning calculation:		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 8, Line 5	_____
2. Commission and/or fees receivable (allowable assets)	A-16	_____
3. Commission and/or fees receivable (non-allowable assets)	A-23	_____
4. Subtotal [Line 2 plus Line 3]		_____
5. Line 4 multiplied by an effective corporate tax rate of _____%		_____
6. Tax recovery – Income accruals [100% of lesser of Lines 1 and 5]		_____
		C-9

Form 1, Part II – Schedule 8A

Notes and instructions

- (1) **Section A - Assets:** The purpose of this calculation is to tax effect identifiable revenue related receivables which have been classified as non-allowable assets for capital purposes. In other words, the calculation gives recognition to the fact that in recording the receivable the *Dealer Member* generated revenue against which a tax provision has been set up.
- (2) **Section A - Margin:** The purpose of this calculation is to reduce the provision for contingent market losses on client and inventory positions (i.e. margin) by the appropriate allowance for taxes recoverable in the event of realization of such a market loss.
- (3) **Line A1** - If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on assets is allowed for *risk adjusted capital* purposes.
- (4) **Line A3** - If the *Dealer Member* has no income tax expense, then insert N/A on this line.
- (5) **Line A5** - The balance reported as the recoverable taxes from preceding three years should be the total taxes paid in the three preceding years, hence available for recovery. If the *Dealer Member* has reported a balance on Line A1 above, then no balance should be reported as the current year tax recovery on this line.
- (6) **Line B1** - If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on income accruals is allowed for early warning purposes.

Form 1, Part II – Schedule 9

Dealer Member's name

Date

Analysis of loans, securities loaned and repurchase agreements

	Amount of loan payable or cash received as collateral C\$000's [see note 3]	Market value of securities received as collateral C\$000's [see note 4]	Market value of securities delivered as collateral or loaned C\$000's [see note 4]	Required to margin C\$000's
Loans payable:				
1. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
2. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
3. <i>Regulated entities</i>	-----	N/A	-----	-----
4. <i>Others</i>	-----	N/A	-----	-----
Securities loaned:				
5. <i>Acceptable institutions</i>	-----	-----	-----	Nil
6. <i>Acceptable counterparties</i>	-----	-----	-----	-----
7. <i>Regulated entities</i>	-----	-----	-----	-----
8. <i>Others</i>	-----	-----	-----	-----
Repurchase agreements:				
9. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
10. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
11. <i>Regulated entities</i>	-----	N/A	-----	-----
12. <i>Others</i>	-----	N/A	-----	-----
13. Total [Sum of Lines 1 through 12]	----- A-52		-----	----- B-15

Form 1, Part II – Schedule 9

Notes and instructions

- (1) This schedule is to be completed for loan payable transactions, where the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.
- (2) For the purpose of this schedule, the following terms have the meanings set out below:

“cash loan payable”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow cash and deliver securities as collateral to the counterparty.
“excess collateral deficiency”	(i) For a <i>cash loan payable</i>, any excess of the <i>market value</i> of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or (ii) For a <i>securities loan arrangement</i>, any excess of the <i>market value</i> of the securities loaned over the <i>market value</i> of securities or the amount of cash received from the transaction counterparty as collateral.
“securities loan arrangement”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend securities and receive cash or securities as collateral from the counterparty.

- (3) Include accrued interest in amount of loan payable.
- (4) *Market value* of securities received or delivered as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

- (i) set out the rights of each party to retain and realize on securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
- (iv) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (iv)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (iv)(b) above, the written agreement must provide for the securities loaned, or the securities sold under a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(5) **Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

- (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the loaned or transferred asset value or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party,

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

- (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the difference between the collateral and the securities, and
- (v) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities loaned in the case of a *securities loan arrangement*, or the securities sold in the case of a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) Cash loan payable

(i) Margin requirements

The margin requirements for a *cash loan payable* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) Securities loan arrangements

(i) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

- (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
- (III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,
 - (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

(iii) Agency securities loan arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities loan arrangement* to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the *Dealer Member* and the underlying principal borrower:

- (a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

(iv) Margin requirements for securities loan arrangements

The margin requirements for a *securities loan arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the securities loaned to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal *securities loan arrangements*, the counterparty is the principal in the *securities loan arrangement*,
 - (II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(8) Securities repurchase arrangements

(i) Written agreement requirements

If a *Dealer Member* has a written agreement for a securities repurchase arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.

(ii) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreement:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member*’s obligations. Any excess value on the realization on the purchased securities (and any additional

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

(iii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreements:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member's* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iv) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

- (a) where an agent is also the third party custodian and the requirements in (ii) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in (iii) are not all met.

(v) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in notes 5 and 8(i), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than calendar 30 days after regular settlement ¹
Acceptable institution	No margin ²	
Acceptable counterparty	Market value deficiency ²	Margin
Regulated entity	Market value deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.
regulated entity within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 5 and 8(i), for margin purposes:
- (I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,
 - (II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are met, the counterparty is the agent,
 - (III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

In CRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(8) Securities repurchase arrangements

(i) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member's* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member's* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iii) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

- (a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than calendar 30 days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

- (I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,
- (II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,
- (III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions of Form 1, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 2, 3, 6 and 7** - In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 10 and 11** - In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 4, 8 and 12** - In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

In CRO Bulletin 24-0067, we propose to repeal and replace note 13 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

- (13) **Lines 4, 8 and 12** - In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*,

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

- (14) **Lines 1, 2 and 3** - In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution, acceptable counterparty, or regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
- (15) **Lines 4, 8, and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(ii) and (iii) where an *acceptable institution, acceptable counterparty, or regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

In CIRO Bulletin 24-0067, we propose to repeal and replace note 15 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

- (15) **Lines 4, 8, and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution, acceptable counterparty, or regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 9A

Dealer Member's name

Date

Cash and securities borrowing and lending arrangements concentration charge

	Reference	C\$000's
1. <i>Market value</i> deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 2	_____
2. <i>Market value</i> deficiency amount relating to loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 3	_____
3. <i>Market value</i> deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 6	_____
4. <i>Market value</i> deficiency amount relating to securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 7	_____
5. <i>Market value</i> deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 9, Line 2	_____
6. <i>Market value</i> deficiency amount relating to loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 9, Line 3	_____
7. <i>Market value</i> deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 9, Line 6	_____
8. <i>Market value</i> deficiency amount relating to securities lent to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 9, Line 7	_____
9. Total market value deficiency exposure with <i>acceptable counterparties</i> and <i>regulated entities</i> , net of legal offsets and margin already provided [Sum of Lines 1 to 8]		_____
10. Concentration threshold – 100% of net allowable assets		_____
11. Concentration Charge [Excess of Line 9 over Line 10, otherwise nil]		B-23

Form 1, Part II – Schedule 10

Mutual Fund Dealer Member's name

Date _____

Concentration of securities – Mutual Fund Dealer Members

Summary sheet

[Mutual Fund Dealer Member's own position (see Sch 10, note 2)]

[illegible]

Form 1, Part II – Schedule 10

Notes and instructions

Introduction

- (1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 10A) or a Debt Security Test methodology (Schedule 10B). The Schedule 10 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 10A and 10B, whether or not a concentration charge applies. If there are more than ten positions where a concentration exposure exists, then all such positions must be listed.

Schedule 10 applies only to inventory positions for *Mutual Fund Dealer Members* that do not offer margin lending or extensions of credit to client accounts. If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the *Mutual Fund Dealer Member* must report their concentration exposures on Schedule 11 in accordance with the same requirements as *Investment Dealer Members*.

The notes and instructions to Schedule 10 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 3, 5(ii), and 10.

The notes and instructions to Schedules 10A and 10B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 10B detail adjustments applicable to the Debt Security Test.

Calculation requirements applicable to both tests, notes 2-11

- (2) The securities and precious metals positions included for exposure testing are those where an inventory position is being held.
- (3) For short positions reported on Schedule 10A, the loan value is the *market value* of the short position. For short positions reported on Schedule 10B, the loan value is the same as calculated for long positions.

Dealer Member's own position

- (4) *Mutual Fund Dealer Member's* own inventory positions are to be reported on a trade date basis. All security positions that qualify for a margin offset may be eliminated.

Amount loaned

- (5) The *Mutual Fund Dealer Member's* own position reported is to be determined based on the long or short position that results in the largest amount loaned exposure.

- (i) To determine the amount loaned on the long position exposure, calculate:

- the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long *Mutual Fund Dealer Member's* own position (if any).

- (ii) To determine the amount loaned on the short position exposure reported on Schedule 10A, calculate:

- the *market value* of the net short *Mutual Fund Dealer Member's* own position (if any).

Calculate the amount loaned on the short position exposure reported on Schedule 10B according to the same methodology described in note 5(i).

- (iii) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration thresholds

- (6) The following concentration thresholds apply:

Form 1, Part II – Schedule 10
Notes and instructions (Continued)

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
(i) Related or “non-arm’s length” securities	Securities issued by: (a) the <i>Mutual Fund Dealer Member</i> , or (b) a company meeting all of the following thresholds: • <i>Mutual Fund Dealer Member</i> accounts are included in the consolidated financial statements • the assets and revenue of the <i>Mutual Fund Dealer Member</i> constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the <i>Mutual Fund Dealer Member</i> for the preceding fiscal year.	One-third of the sum of the <i>Mutual Fund Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.
(ii) Non-related or arm’s length marginable securities	Securities, or a precious metal position, other than those described in note 6(i) above.	Two-thirds of the sum of the <i>Mutual Fund Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.
(iii) Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or other property position: (a) <u>Multiple violations</u> : If the <i>Mutual Fund Dealer Member</i> has already incurred a concentration charge for an issuer position or precious metal position under notes 6(i), or 6(ii); or, (b) <u>Material exposures</u> : If the <i>Mutual Fund Dealer Member</i> has already measured a concentration exposure on any one non-related issuer or a precious metal position in excess of one-half of the sum of <i>risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.	One-half of the sum of the <i>Mutual Fund Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated. Any additional exposures for issuer positions classified under 6(i) are measured at one-third of the sum of the <i>Mutual Fund Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.

- (7) The additional exposures threshold reductions detailed in note 6(iii) apply to all issuer positions tested under Schedule 10, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 10A and 10B.

Concentration charge

- (8) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 6 is required unless the excess is cleared within five *business days* of the date it first occurs.
- (9) For the purpose of calculating the concentration charges as required by notes 6(i), 6(ii), 6(iii), and 8 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 10A and the largest three issuer positions originating from Schedule 10B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 6(i) are ranked first on Schedule 10.

Form 1, Part II – Schedule 10
Notes and instructions (Continued)

- (10) For Schedule 10A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 10B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

Other

- (11) (i) Where there is an over exposure in a security or precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the *Mutual Fund Dealer Member* must report the over exposure situation to the *Corporation* on the date the over exposure first occurs.
- (ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in “readily saleable quantities”.

Form 1, Part II – Schedule 10A

Mutual Fund Dealer Member's name

Date _____

Concentration of securities – Mutual Fund Dealer Members

General Security Test

[Mutual Fund Dealer Member's own position, excluding debt securities with a margin rate of 10% or less (see Sch. 10, note 2 and Sch. 10A, note 3)]

[illegible]

See notes and instructions

XXX-XXXX

Form 1, Part II – Schedule 10A
Notes and instructions

General Security Test

- (1) *Mutual Fund Dealer Members* must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than *debt securities* cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
- (3) Exclude all:
 - (i) *debt securities* with a normal margin requirement of 10% or less, and
 - (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to *diversified investment product* positions may be treated as an amount loaned exposure to each of the individual securities comprising the basket. These amount loaned exposures may be reported by breaking down the *diversified investment product* position into its underlying constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each constituent security position held, sum:

- (i) the individual security positions held, and
- (ii) the constituent security position held.

(For example, if ABC security has a 7.3% weighting in a *diversified investment product*, the number of securities that represents 7.3% of the value of the *diversified investment product* position shall be reported as the constituent security position.)

Form 1, Part II – Schedule 10B

Mutual Fund Dealer Member's name

Date _____

Concentration of securities – Mutual Fund Dealer Members

Debt Security Test

[Mutual Fund Dealer Member's own position, excluding positions reported on Schedule 10A (see Sch. 10, note 2)]

[illegible]

See notes and instructions

XXX-XXXX

Form 1, Part II – Schedule 10B
Notes and instructions

Debt Security Test

- (1) *Mutual Fund Dealer Members* must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to *debt securities* with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in *debt securities* with a normal margin requirement of 10% or less, other than *debt securities* cited in note 3).
- (3) Exclude non-commercial *debt securities* with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum *designated rating organization* current credit rating requirements and qualifications:

Exclusions from Schedule 10B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Non-commercial <i>debt securities</i> with a normal margin rate of less than 10%, issued or guaranteed by the following: - national governments of Canada, United Kingdom, and United States - Canadian provincial governments - the International Bank for Reconstruction and Development - Canadian and United Kingdom municipal corporations	Not applicable	Not applicable (N/A)
2.	Other non-commercial <i>debt securities</i> with a normal margin rate of 10% or less	A	
3.	Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: - A Canadian financial institution qualifying as an <i>acceptable institution</i> - A foreign financial institution qualifying as an <i>acceptable institution</i>	R-1(low), F1, P-1, A-1(low)	Structured finance products as defined in National Instrument 25-101 are not eligible for exclusion

Additional netting allowance for Mutual Fund Dealer Member's own position

- (4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 10, note 4. The remaining net long (short) *Mutual Fund Dealer Member's* own inventory position may be calculated on a net basis. The offsetting of positions is allowed if:
 - (i) the positions are of the same seniority, or
 - (ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

Additional amount loaned adjustments available for the Debt Security Test

- (5) If the loan value of an issuer position does not exceed one-half (one-third in the case of an issuer position which qualifies under Schedule 10, note 6(i)) of the sum of the *Mutual Fund Dealer Member's risk adjusted capital* before securities

Form 1, Part II – Schedule 10B
Notes and instructions (Continued)

concentration charge and minimum capital (Statement B, Line 8) as most recently calculated, the additional amount loaned adjustments and completion of the columns titled “Risk-weighting adjustment factor %” (Schedule 10B, Column 7), and “Risk-weighted amount loaned” (Schedule 10B, Column 8) is optional.

- (6) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk-weighting adjustments for debt securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term rating:			
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

- (7) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
- (i) commercial *debt securities* must be ranked senior to any outstanding *equity securities* from the same issuer in the statutory creditor hierarchy, or contractually
 - (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

2-step methodology for determining risk-weighting adjustment factor

- (8) Step 1: Calculate the issuer’s risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 6) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 10, notes 6(i), 6(ii), 6(iii), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

1. calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 10B, Column 6) for the issuer.
2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

Form 1, Part II – Schedule 11

Investment Dealer Member's name

Date _____

Concentration of securities – Investment Dealer Members

Summary sheet

[excluding securities required to be in *segregation* or safekeeping (see Sch. 11, note 3)]

[illegible]

Form 1, Part II – Schedule 11

Notes and instructions

Introduction

- (1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 11A) or a Debt Security Test methodology (Schedule 11B). The Schedule 11 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 11A and 11B, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.

Investment Dealer Members must report their concentration exposures on this schedule. If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the *Mutual Fund Dealer Member* must report their concentration exposures on this schedule in accordance with the same requirements as *Investment Dealer Members*.

The notes and instructions to Schedule 11 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 4, 7(ii), and 12.

The notes and instructions to Schedules 11A and 11B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 11B detail additional adjustments applicable to the Debt Security Test.

Calculation requirements applicable to both tests, notes 2-13

- (2) The securities and precious metals positions included for exposure testing are those where:
- (i) loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account, or
 - (ii) an inventory position is being held.
- (3) Securities and precious metals that are required to be in *segregation* or *safekeeping* should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the *Investment Dealer Member* for loan value, and must be included in the issuer position and precious metal position.
- (4) For short positions reported on Schedule 11A, the loan value is the *market value* of the short position. For short positions reported on Schedule 11B, the loan value is the same as calculated for long positions.

Client position

- (5) (i) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts (when any transaction in the account is outstanding after settlement date) and delivery against payment and receipt against payment accounts (when any transaction in the account is outstanding after settlement date). Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.
- (ii) Positions in delivery against payment and receipt against payment accounts with *acceptable institutions*, *acceptable counterparties*, or *regulated entities* resulting from transactions that are outstanding less than ten *business days* past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten *business days* or more past settlement and is not confirmed for clearing through an *acceptable clearing corporation* or not confirmed by the *acceptable institution*, *acceptable counterparty* or *regulated entity*, then the position must be included in the position reported.

Dealer Member's own position

- (6) (i) *Investment Dealer Member's* own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty *business days* after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.

Form 1, Part II – Schedule 11
Notes and instructions (Continued)

- (ii) The amount reported must include uncovered stock positions in market-maker accounts.

Amount loaned

- (7) The client and *Investment Dealer Member's* own positions reported are to be determined based on the combined client/*Investment Dealer Member's* own long or short position that results in the largest amount loaned exposure.

- (i) To calculate the combined amount loaned on the long position exposure, combine:
- the loan value of the gross long client position (if any) contained within client margin accounts,
 - the weighted *market value* (calculated pursuant to the weighted *market value* calculation set out in Schedule 4, note 8(i)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(i)(b)) of the gross long client position (if any) contained within client cash accounts,
 - the *market value* (calculated pursuant to the *market value* calculation set out in Schedule 4, note 8(ii)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(ii)(b)) of the gross long client position (if any) contained within client delivery against payment accounts, and
 - the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long *Investment Dealer Member's* own position (if any).
- (ii) To calculate the combined amount loaned on the short position exposure reported on Schedule 11A, combine:
- the *market value* of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts, and
 - the *market value* of the net short *Investment Dealer Member's* own position (if any).

Calculate the combined amount loaned on the short position exposure reported on Schedule 11B according to the same methodology described in note 7(i).

- (iii) If the loan value of an issuer position or a precious metal position (net of issuer securities or precious metal position required to be in *segregation/safekeeping*) does not exceed one-half (one-third in the case of an issuer position or precious metal position which qualifies under either note 8(i) or 8(ii) below) of the sum of the *Investment Dealer Member's risk adjusted capital* before securities concentration charge and minimum capital (Statement B, Line 8) as most recently calculated, the completion of the columns titled "Adjustments in arriving at Amount Loaned" (on Schedules 11A and 11B), "Risk-weighting adjustment factor %" (Schedule 11B), and "Risk-weighted amount loaned" (Schedule 11B) is optional. However, nil should be reflected for the concentration charge.
- (iv) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
- (a) Security positions and precious metal positions that qualify for a margin offset may be excluded, as previously discussed in notes 5(i) and 6(i),
 - (b) Security positions and precious metal positions that represent excess margin in the client's account may be excluded. (If the starting point of the calculations is securities or precious metal positions not required to be in *segregation/safekeeping*, this deduction has already been included in the loan value calculation of Column 7 on Schedules 11A and 11B.),
 - (c) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded,
 - (d) In the case of margin accounts, 25% of the *market value* of long positions in any: (I) non-marginable securities or, (II) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,
 - (e) In the case of cash accounts, 25% of the *market value* of long positions in any securities whose *market value* weighting is 0.000 (pursuant to Schedule 4, note 8(i)(a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,

Form 1, Part II – Schedule 11
Notes and instructions (Continued)

- (f) The amount loaned values of trades made with financial institutions that are not *acceptable institutions*, *acceptable counterparties* or *regulated entities*, if the trades are outstanding less than 10 *business days* past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an *acceptable institution* may be deducted from the amount loaned calculation, and
- (g) Any security positions or precious metal positions in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a *guarantee* agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.
- (v) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration thresholds

- (8) The following concentration thresholds apply:

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
(i) Related or "non-arm's length" securities	Securities issued by: (a) the <i>Investment Dealer Member</i> , or (b) a company meeting all of the following thresholds: • <i>Investment Dealer Member</i> accounts are included in the consolidated financial statements • the assets and revenue of the <i>Investment Dealer Member</i> constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the <i>Investment Dealer Member</i> for the preceding fiscal year.	One-third of the sum of the <i>Investment Dealer Member's risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.
(ii) Non-marginable securities of an issuer held in a cash account(s)	Non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted <i>market value</i> calculation set out in Schedule 4, note 8(i)(a)(II).	
(iii) Non-related or arm's length marginable securities	Securities, or a precious metal position, other than those described in notes 8(i) and 8(ii) above.	Two-thirds of the sum of the <i>Investment Dealer Member's risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.
(iv) Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or precious metal position: (a) <u>Multiple violations</u> : If the <i>Investment Dealer Member</i> has already incurred a concentration charge for an issuer position or precious metal position under notes 8(i), 8(ii), or 8(iii); or, (b) <u>Material exposures</u> : If the <i>Investment Dealer Member</i> has already measured a concentration exposure on any one non-related issuer or a precious metal position in excess of one-half of the sum of <i>risk</i>	One-half of the sum of the <i>Investment Dealer Member's risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated. Any additional exposures for issuer positions classified under 8(i) or 8(ii) are measured at one-third of the sum of the <i>Investment Dealer Member's risk adjusted capital</i> before securities

Form 1, Part II – Schedule 11
Notes and instructions (Continued)

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
	<i>adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.	concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.

- (9) The additional exposures threshold reductions detailed in note 8(iv) apply to all issuer positions tested under Schedule 11, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 11A and 11B.

Concentration charge

- (10) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 8 is required unless the excess is cleared within five *business days* of the date it first occurs.
- (11) For the purpose of calculating the concentration charges as required by notes 8(i), 8(ii), 8(iii), 8(iv), and 10 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 11A and the largest three issuer positions originating from Schedule 11B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 8(i) and 8(ii) are ranked first on Schedule 11.
- (12) For Schedule 11A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 11B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

Other

- (13) (i) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the *Investment Dealer Member* must report the over exposure situation to the *Corporation* on the date the over exposure first occurs.
- (ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in “readily saleable quantities”.

Investment Dealer Member's name

Concentration of securities – Investment Dealer Members
General Security Test

[illegible]

Form 1, Part II – Schedule 11A
Notes and instructions

General Security Test

- (1) *Investment Dealer Members* must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than *debt securities* cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
- (3) Exclude all:
 - (i) *debt securities* with a normal margin requirement of 10% or less, and
 - (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to *diversified investment product* positions may be treated as an amount loaned exposure to each of the individual securities comprising the basket. These amount loaned exposures may be reported by breaking down the *diversified investment product* position into its underlying constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each constituent security position held, sum:

- (i) the individual security positions held, and
- (ii) the constituent security position held.

(For example, if ABC security has a 7.3% weighting in a *diversified investment product*, the number of securities that represents 7.3% of the value of the *diversified investment product* position shall be reported as the constituent security position.)

Investment Dealer Member's name

Debt Security Test

[illegible]

Form 1, Part II – Schedule 11B
Notes and instructions

Debt Security Test

- (1) *Investment Dealer Members* must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to *debt securities* with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in *debt securities* with a normal margin requirement of 10% or less, other than *debt securities* cited in note 3).
- (3) Exclude non-commercial *debt securities* with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum *designated rating organization* current credit rating requirements and qualifications:

Exclusions from Schedule 11B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Non-commercial <i>debt securities</i> with a normal margin rate of less than 10%, issued or guaranteed by the following: - national governments of Canada, United Kingdom, and United States - Canadian provincial governments - the International Bank for Reconstruction and Development - Canadian and United Kingdom municipal corporations	Not applicable	Not applicable (N/A)
2.	Other non-commercial <i>debt securities</i> with a normal margin rate of 10% or less	A	
3.	Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: - A Canadian financial institution qualifying as an <i>acceptable institution</i> - A foreign financial institution qualifying as an <i>acceptable institution</i>	R-1(low), F1, P-1, A-1(low)	Structured finance products as defined in National Instrument 25-101 are not eligible for exclusion

Additional netting allowance for Dealer Member's own position and client position

- (4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 11, notes 5(i) and 6(i). The remaining net long (short) *Investment Dealer Member's* own inventory position may be calculated on a net basis. Individual client account positions are also eligible for this netting allowance. The offsetting of positions is allowed if:
 - (i) the positions are of the same seniority, or
 - (ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

It is not permitted to net the *Investment Dealer Member's* own position against client positions, or to net exposures across client accounts. Netting across client accounts is only permitted in accordance with section 5830 of the Dealer and Consolidated Rules, supported by a written hedge agreement in a form acceptable to the *Corporation*.

Form 1, Part II – Schedule 11B
Notes and instructions (Continued)

Additional amount loaned adjustments available for the Debt Security Test

- (5) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk-weighting adjustments for debt securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term rating:			
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

- (6) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
- (i) commercial *debt securities* must be ranked senior to any outstanding *equity securities* from the same issuer in the statutory creditor hierarchy, or contractually
 - (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

2-step methodology for determining risk-weighting adjustment factor

- (7) Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 5) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 11, notes 8(i), 8(ii), 8(iii), 8(iv), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

1. calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 11B, Column 9) for the issuer.
2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

Form 1, Part II – Schedule 12

Dealer Member's name

Date _____

Insurance

A. Financial Institution Bond (FIB) clauses (a) to (e)

Minimum coverage required for each clause:

Mutual Fund Dealer Members categorized as Level 1, 2 or 3 Dealers and Investment Dealer Members who are Type 1 introducing brokers

1.	(a)	Minimum coverage of			\$200	
	(b)	Client net equity		_____	x 0.5%	_____ [see note 3]
	(c)	Total allowable assets	A-20	_____	x 0.5%	_____
		Greater of (a), (b) and (c) above to maximum of \$25,000,000				_____

Investment Dealer Members who are Type 2 introducing brokers

2. (a)	Minimum coverage of			\$500	
(b)	Client net equity		x 0.5%		[see note 3]
(c)	Total allowable assets	A-20	x 0.5%		
Greater of (a), (b) and (c) above to a maximum of \$25,000,000					

All other Dealer Members

3.	(a)	Minimum coverage of			\$500	
	(b)	Client net equity:				
		i) Dealer Member's own	_____			
		ii) Carrying brokers' introducing brokers	_____			
		Total	_____	x 1%	_____	[see note 3]
	(c)	Total allowable assets	A-20 _____	x 1%	_____	
		Greater of (a), (b) and (c) above to a maximum of \$25,000,000				

4.	Coverage maintained per FIB		[see notes 4 and 8]

5.	Excess/(deficiency) in coverage	<u><u> </u></u>	[see note 5]
6.	Amount deductible under FIB (if any)	<u><u> </u></u>	[see note 6]
B-17			

B. Registered mail insurance

1. Coverage per mail policy [see note 7]

C. FIB and registered mail policy information [see note 8]

Insurance company	Name of the insured	FIB/registered mail	Expiry date	Coverage	Type of aggregate limit	Provision for full reinstatement	Premium

See notes and instructions

XXX-XXXX

Form 1, Part II – Schedule 12 (Continued)

Insurance company	Name of the insured	FIB/registered mail	Expiry date	Coverage	Type of aggregate limit	Provision for full reinstatement	Premium

D. Losses and claims [see note 10]

Date of loss	Date of discovery	Amount of loss	Deductible applying to loss	Description	Claim made?	Settlement	Date settled
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
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Form 1, Part II – Schedule 12

Notes and instructions

- (1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the *Corporation requirements* and the rules of the *Investor Protection Fund*.
- (2) Schedule 12 must be completed at the audit date and monthly as part of the *monthly financial report*.
- (3) Net equity for each client is the net value of cash, *securities*, precious metals bullion and other *investment products* held or controlled by the *Dealer Member* on behalf of clients. The net value is determined as the total value of cash, securities, precious metals bullion and other *investment products* owed to the client by the *Dealer Member* less the total value of cash, securities, precious metals bullion and other *investment products* owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, options, futures contracts, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. The aggregate net equity for each client is reported on Schedule 12 Part A, Lines 1(b), 2(b) and 3(b) depending on the *Dealer Member* type or level. Negative client net equity, (i.e. total deficiency in net equity owed to the *Dealer Member* by the client) is not included in the aggregate. Cash and securities held by a *Dealer Member* in its capacity as agent for the trustee must be included in the determination of total client net equity held by the *Dealer Member*.

For a Dealer Level 1 and 2, the client net equity reported on Line 1(b) should be zero since these *Dealer Members* do not hold client assets. For a Dealer Level 3, the client net equity reported on Line 1(b) should only include client cash in trust held by the *Dealer Member* since the *Dealer Member* does not hold client *securities* or other *investment products*.

For introducing broker/carrying broker arrangements, both the introducing broker and the carrying broker must include the accounts introduced/carried when calculating the client net equity.

For Schedule 12, *guarantee/guarantor* agreements should not be considered in the calculation of net equity.

In CISO Bulletin 24-0067, we propose to amend the above sentence as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

For Schedule 12, the following should not be considered in the calculation of net equity:

- (i) *guarantee/guarantor* agreements, and
- (ii) collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed the client's fully paid or excess margin securities.

The client net equity calculation should include all retail and *institutional client* accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, *affiliates* and other similar accounts.

- (4) A *Dealer Member* must have and maintain insurance against losses, using a Financial Institution Bond with a discovery rider attached or discovery provisions incorporated in the Financial Institution Bond. A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bonds containing an "aggregate limit" coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

- (5) The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors' Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.
- (6) A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member's* margin requirement is increased by the amount of the deductible.
- (7) The aggregate value of securities in transit in the custody of any *employee* or any *person* acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 12, Part A Line 4).
- (8) **Part B** - Unless specifically exempted within the *Corporation requirements*, every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.
- (9) **Part C** - List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
- (10) **Part D** - List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the "Amount of loss" column if the amount of the loss is estimated or unknown as at the reporting date.

Form 1, Part II – Schedule 12
Notes and instructions (Continued)

Losses should continue to be reported on Part D of Schedule 12 until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

Form 1, Part II – Schedule 13

Dealer Member's name

Date

Unhedged foreign currencies calculation

Summary

C\$000's

A. Total foreign exchange margin requirement

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B. Details for individual currencies with margin requirement greater than or equal to \$5,000:

Foreign currency with margin requirement $\geq$ \$5,000

(For each foreign currency, a Schedule 13A or 13B must be completed)

Margin group

Required margin

Subtotal

All other foreign exchange margin requirement

Total

Form 1, Part II – Schedule 13A

Mutual Fund Dealer Member's name

Date

Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000 - Mutual Fund Dealer Members

Foreign currency: _____

Foreign currency group: _____

	<u>Amount</u>	<u>Margin required</u>
Balance sheet items less than or equal to two days to maturity		
1. Total <i>monetary assets</i>	_____	
2. Total <i>monetary liabilities</i>	_____	
3. Net long (short) foreign exchange positions	_____	
4. Net foreign exchange position multiplied by spot risk for Group ____ of ____%		_____
5. Spot rate at reporting date		_____
6. Margin requirement converted to Canadian dollars		_____
Foreign exchange concentration charge		
7. Total foreign exchange margin [Line 6] in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1]		_____
Total foreign exchange margin for (currency):		_____

Sch. 13

Form 1, Part II – Schedule 13B

Dealer Member's name

Date

Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000 – Investment Dealer Members

Foreign currency: _____

Foreign currency group: _____

	<u>Amount</u>	<u>Weighted value</u>	<u>Margin required</u>
Balance sheet items and forward/future commitments less than or equal to two years to maturity			
1. Total <i>monetary assets</i>	_____	_____	_____
2. Total long forward/ <i>futures contract</i> positions	_____	_____	_____
3. Total <i>monetary liabilities</i>	_____	_____	_____
4. Total (short) forward/ <i>futures contract</i> positions	_____	_____	_____
5. Net long (short) foreign exchange positions	_____	_____	_____
6. Net weighted value	_____	_____	_____
7. Net weighted value multiplied by term risk for Group ____ of ____%	_____	_____	_____
Balance sheet items and forward/future commitments greater than two years to maturity			
8. Total <i>monetary assets</i>	_____	_____	_____
9. Total long forward/ <i>futures contract</i> positions	_____	_____	_____
10. Total <i>monetary liabilities</i>	_____	_____	_____
11. Total (short) forward/ <i>futures contract</i> positions	_____	_____	_____
12. Net long (short) foreign exchange positions	_____	_____	_____
13. Greater of long or (short) weighted values	_____	_____	_____
14. Net weighted value multiplied by term risk for Group ____ of ____%	_____	_____	_____
Foreign exchange margin requirements			
15. Net long (short) foreign exchange positions	_____	_____	_____
16. Net foreign exchange position multiplied by spot risk for Group ____ of ____%	_____	_____	_____
17. Total term risk and spot risk margin requirement	_____	_____	_____
18. Spot rate at reporting date	_____	_____	_____
19. Margin requirement converted to Canadian dollars	_____	_____	_____
Foreign exchange concentration charge			
20. Total foreign exchange margin [Line 19] in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1]	_____	_____	_____
Total foreign exchange margin for (currency):	_____	_____	_____

Sch. 13

Form 1, Part II – Schedules 13, 13A and 13B

Notes and instructions

- (1) The purpose of this schedule is to measure the balance sheet exposure a *Dealer Member* has to foreign currency risk. Schedule 13A or Schedule 13B must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.

Schedule 13A details the foreign currency margin calculation for a *Mutual Fund Dealer Member's* foreign currency exposure. Schedule 13B details the foreign currency margin calculation for an *Investment Dealer Member's* foreign currency exposure.
- (2) The following is a summary of the quantitative and qualitative criteria for currency groups 1-4. *Dealer Members* should refer to the *Corporation's* most recently published listing of currency groupings.
 - (i) A Group 1 currency must (a) have a spot price volatility level of less than or equal to 1%, and (b) be a primary intervention currency of the Canadian dollar.
 - (ii) A Group 2 currency must (a) have a spot price volatility level of less than or equal to 3%, (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and (c) have either: (I) a daily quoted spot rate by either: (A) a member of the Economic and Monetary Union, or (B) a participant of the Exchange Rate Mechanism II, or (II) a listed currency *futures contract* on a futures exchange.
 - (iii) A Group 3 currency must (a) have a spot price volatility of less than or equal to 10%, (b) have a daily quoted sport rate by a Schedule 1 *chartered bank*, and (c) be of a member country of the International Monetary Fund.
 - (iv) A Group 4 currency has no initial or ongoing qualification criteria.
- (3) Reference should be made to the applicable *Corporation requirements* for definitions and calculations.
- (4) *Monetary assets* and *monetary liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.
- (5) All *monetary assets* and *monetary liabilities* as well as the *Dealer Member's* own foreign currency future and forward commitments are to be reported on a trade date basis.
- (6) *Monetary assets* and *monetary liabilities* and the *Dealer Member's* own foreign currency future and forward commitments should be disclosed by maturity dates (i.e. less than or equal to two years and greater than two years).
- (7) Weighted value is calculated for *foreign exchange positions* with a *term to maturity* of over two *business days*. The weighted value is derived by taking the *term to maturity* of the *foreign exchange position* in calendar days divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
- (8) The total margin requirement is the aggregate of the spot risk margin requirement and term risk margin requirement. The spot risk margin requirement applies to all *monetary assets* and *monetary liabilities*, regardless of *term to maturity*. The term risk margin requirement applies to all *monetary assets* and *monetary liabilities* with a *term to maturity* of over two *business days*. The following summarizes the margin rates by currency group:

	Currency group			
	1	2	3	4
Spot risk margin rate	greater of: (i) 1.00% and (ii) spot risk surcharge rate ¹	greater of: (i) 3.00% and (ii) spot risk surcharge rate ¹	greater of: (i) 10.00% and (ii) spot risk surcharge rate ¹	25.00%
Term risk margin rate ²	1.00% to a maximum of 4.00%	3.00% to a maximum of 7.00%	5.00% to a maximum of 10.00%	12.50% to a maximum of 25.00%
Total maximum margin rates ¹	5.00%	10.00%	20.00%	50.00%

¹ The spot risk surcharge rate is determined using the approach set out in subsection 5462(2).

² If the weighting factor described in note 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.

Form 1, Part II – Schedules 13, 13A and 13B

Notes and instructions (Continued)

- (9) *Dealer Members* may elect to exclude non-allowable *monetary assets* from the total *monetary assets* reported on Schedule 13A or Schedule 13B for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a *Dealer Member* should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the *Dealer Member* unless it serves as an economic hedge against a *monetary liability*.
- (10) For *Dealer Members* offsetting a *foreign exchange position* denominated in a currency which has a currency futures contract which trades on a futures exchange, an alternative margin calculation may be used (refer to section 5467 of the Dealer and Consolidated Rules). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule 13B.
- (11) **Schedule 13A Line 7 and Schedule 13B Line 20** - The foreign exchange concentration charge applies only to currency groups 2 to 4.

Form 1, Part II – Schedule 14

Dealer Member's name

Date

Provider of capital concentration charge

Name of provider of capital

	Reference	C\$000's
A. Calculation of cash and undersecured loans with provider of capital		
1. Cash on deposit with <i>provider of capital</i>		_____
2. Cash held in trust with <i>provider of capital</i>		_____
3. Loans receivable - undersecured loans receivable from <i>provider of capital</i> relative to normal commercial terms		_____
4. Loans receivable - secured loans receivable from <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>		_____
5. Securities borrowed - securities borrowing agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms		_____
6. Securities borrowed - secured securities borrowing agreements with the <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>		_____
7. Resale agreements - agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms		_____
8. Commissions and fees receivable from the <i>provider of capital</i>		_____
9. Interest and dividends receivable from the <i>provider of capital</i>		_____
10. Other receivables from the <i>provider of capital</i>		_____
11. Loans payable - loans payable to the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
12. Securities lent - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
13. <i>Repurchase agreements</i> - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
Less:		
14. Bank overdrafts with the <i>provider of capital</i>		_____
15. Total cash deposits and undersecured loans with <i>provider of capital</i>		_____
B. Calculation of investments in securities issued by the provider of capital		
1. Investments in securities issued by the <i>provider of capital</i> (net of margin provided)		_____
Less:		
2. Loans payable to <i>provider of capital</i> that are linked to the assets above and are limited recourse		_____
3. Securities issued by the <i>provider of capital</i> sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above		_____
4. Total investment in securities issued by the <i>provider of capital</i>		_____

Form 1, Part II – Schedule 14 (Continued)

C. Calculation of financial statement capital provided by the provider of capital

1. *Regulatory financial statement capital provided by the provider of capital* (including pro-rata share of reserves and retained earnings)

D. Net allowable assets

1. Net allowable assets

E. Exposure test #1 - Dollar cap on cash deposits and undersecured loans

1. *Regulatory financial statement capital provided by the provider of capital*
2. Cash deposits and undersecured loans with *provider of capital*
3. *Regulatory financial statement capital* redeposited or lent back on an undersecured basis [Minimum of Section E, Line 1 and Section E, Line 2]
4. Exposure threshold
5. Capital requirement [Excess of Section E, Line 3 over Section E, Line 4]

Section C,
Line 1

Section A,
Line 15

_____ \$50,000 _____

F. Exposure test #2 - Overall cap on cash deposits and undersecured loans and investments

1. *Regulatory financial statement capital provided by the provider of capital*
2. Cash deposits and undersecured loans with *provider of capital*
3. Investments in securities issued by the *provider of capital*
4. Total cash deposits and undersecured loans and investments [Section F, Line 2 plus Section F, Line 3]
5. *Regulatory financial statement capital* redeposited or lent back on an undersecured basis or invested in securities issued by the *provider of capital* [Minimum of Section F, Line 1 and Section F, Line 4]

Section C,
Line 1

Section A,
Line 15

Section B,
Line 4

Less:

6. Capital charge incurred under Exposure Test #1
7. Net financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the *provider of capital* [Section F, Line 5 minus Section F, Line 6]
8. Exposure threshold being the greater of:
 - (a) Ten million dollars
 - (b) 20% of net allowable assets [20% of Section D, Line 1]
9. Capital requirement [Excess of Section F, Line 7 over Section F, Line 8]
10. Total *provider of capital* concentration charge [Section E, Line 5 plus Section F, Line 9]

Section E,
Line 5

_____ \$10,000 _____

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Form 1, Part II – Schedule 14

Notes and instructions

- (1) The purpose of this schedule is to measure the exposure a *Dealer Member* has to each of its *providers of capital* (as defined below). As such is the case, a separate copy of this schedule should be completed for each *provider of capital* where the capital provided is in excess of \$10 million. This schedule should be completed on a settlement date basis.

- (2) The following terms have the meanings set out when used in this schedule:

“provider of capital”	An <i>individual</i> or entity and its affiliates that provides capital to a <i>Dealer Member</i> .
“Regulatory financial statement capital provided by the provider of capital”	The portion of the regulatory financial statement capital (calculated on Line 4 of Statement B) that has been provided to the <i>Dealer Member</i> by the <i>provider of capital</i> .

- (3) Calculation of cash and undersecured loans with provider of capital

- (i) Section A, Line 2 – The cash held in trust to be reported on this line includes cash held at the *provider of capital* that is segregated due to the free credit ratio calculation or segregated by *Mutual Fund Dealer Members* due to the *Corporation’s requirements*. Cash deposited in trust for RRSP and other similar accounts is excluded.
- (ii) Section A, Line 3 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.
- (iii) Section A, Line 4 – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the *provider of capital*.
- (iv) Section A, Line 5 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable or the *market value* of the securities delivered as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.
- (v) Section A, Line 6 – The amount to be reported on this line refers to the entire loan receivable balance or the *market value* of the securities delivered as collateral if the only collateral received for the loan is securities issued by the *provider of capital*.
- (vi) Section A, Line 7 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the security received) deficiency required under normal commercial terms. If the security received is a security issued by the *provider of capital* the collateral is assumed to have no value for the purposes of the above calculation.
- (vii) Section A, Lines 8, 9 and 10 – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the *provider of capital*.
- (viii) Section A, Line 11 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.
- (ix) Section A, Line 12 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the *market value* of the securities received as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.
- (x) Section A, Line 13 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the *repurchase agreement* and the amount of the loan payable

Form 1, Part II – Schedule 14
Notes and instructions (Continued)

that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.

(4) Calculation of investments in securities issued by the provider of capital

- (i) Section B, Line 1 – Include all investments in securities issued by the *provider of capital*.
- (ii) Section B, Line 2 – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.
- (iii) Section B, Line 3 – Include only those security positions that are otherwise eligible for offset pursuant to the *Corporation's* capital requirements.

(5) Calculation of financial statement capital provided by the provider of capital

- (i) Section C, Line 1 – Include the face amount of *subordinated debt* provided by the *provider of capital*, plus the book amount of equity capital provided by the *provider of capital* plus a pro-rata share of reserves and retained earnings.

Form 1, Part II – Schedule 15

Dealer Member's name

Date

Margin on futures concentrations and deposits

Margin required

C\$000's

1. Total open futures contract and short futures contract option positions
2. Concentration in individual accounts
3. Concentration in individual open futures contracts and short futures contract options
4. Deposits with *correspondent brokers*
5. Total [Sum of Lines 1 through 4]

B-20

Form 1, Part II – Schedule 15
Notes and instructions

- (1) The purpose of Schedule 15 is to ensure that there is adequate capital available at a *Dealer Member* to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with *correspondent brokers*.

- (2) The following terms have the meanings set out when used in this schedule:

“correspondent broker”	A broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the <i>Dealer Member</i> in a country other than Canada.
“maintenance margin requirement”	The margin requirement prescribed by the futures exchange on which the futures contract is entered into.
“long futures contract position”	Includes futures contracts underlying short put options on futures contracts.
“short futures contract position”	Includes futures contracts underlying short call options on futures contracts.

- (3) **Line 1 – General margin provision (notes 3 and 4)**

Line 1 is used to establish a base level of capital that a *Dealer Member* is to provide when the *maintenance margin requirements* (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the *Dealer Member* and its clients.

The general margin provision calculation is on the *Dealer Member* and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related note below.

The margin required is 15% of the greater of:

- (i) the *maintenance margin requirements* of the total *long futures contract positions* for each type of futures contract carried for all *Dealer Member* and client accounts, or
- (ii) the *maintenance margin requirements* of the total *short futures contract positions* for each type of futures contract carried for all *Dealer Member* and client accounts.

Where a futures exchange calculates and publishes *maintenance margin requirements* on a daily basis, no margin is required under Line 1.

- (4) **Line 1 – Positions excluded in determining the general margin provision**

The following positions may be excluded in determining the general margin provision:

- (i) Positions held in accounts of *acceptable institutions, acceptable counterparties* and *regulated entities*.
- (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client’s account at the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation.
- (iii) *Dealer Member* or individual client spread positions in *futures contracts* in the same product (including *futures contracts* in the same product with different delivery months) entered into on the same futures exchange. All other spread positions are treated as speculative positions for the purpose of this calculation.
- (iv) *Dealer Member* or individual client short option positions on futures contracts which are out-of-the-money by more than two *maintenance margin requirements*.
- (v) *Dealer Member* or individual client spread positions in the same futures contract options.

- (5) **Line 2 – Concentration in individual accounts (notes 5, 6, and 9)**

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the *Dealer Member*) when the aggregate of the *maintenance margin requirements* for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the *Dealer Member’s* inventory is greater than 15% of the *Dealer Member’s* net allowable assets. The concentration risk is the excess amount of the aggregate of those *maintenance margin requirements* over 15% of the *Dealer Member’s* net

Form 1, Part II – Schedule 15
Notes and instructions (Continued)

allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- (i) the aggregate of the *maintenance margin requirements* for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the *Dealer Member's* inventory, except for positions mentioned in note 9, minus
- (ii) 15% of the *Dealer Member's* net allowable assets.

Deductions from part (i) of the excess amount calculation above

Any excess margin in the *Dealer Member* account or client's account may be deducted from part (i) of the excess amount calculation. The excess margin must be based on the maintenance margin.

(6) Line 2 – Calculation of margin required for individual account concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

(7) Line 3 – Concentration in individual open futures contracts and short options on futures contract positions (notes 7 to 9)

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two *maintenance margin requirements* on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the *Dealer Member's* inventory and for all clients, is greater than 40% of the *Dealer Member's* net allowable assets. The concentration risk is the excess amount of those aggregate of two *maintenance margin requirements* over 40% of the *Dealer Member's* net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- (i) the aggregate of two *maintenance margin requirements* on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the *Dealer Member's* inventory and for all clients, except for positions mentioned in note 9, minus
- (ii) 40% of the *Dealer Member's* net allowable assets.

Deductions from part (i) of the excess amount calculation above

Any excess margin may be deducted from part (i) of the excess amount calculation, up to two *maintenance margin requirements* in the *Dealer Member* account or client's account (on a per client basis). The excess margin must be based on the maintenance margin.

(8) Line 3 – Calculation of margin required for contract concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

(9) Lines 2 and 3 – Positions to be excluded in calculating margin for account and contract concentrations in notes 6 and 8

- (i) Positions held in accounts of *acceptable institutions*, *acceptable counterparties* and *regulated entities*.
- (ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at

Form 1, Part II – Schedule 15
Notes and instructions (Continued)

the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded.

(iii) The following short option positions on futures contracts in a *Dealer Member* or client account, and provided that the pairings are acceptable for margin purposes by the relevant exchange:

- (a) short calls or puts which are out-of-the-money by more than two *maintenance margin requirements*,
- (b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month,
- (c) a futures contract paired with an in-the-money option,
- (d) a short call (put) paired with a long in-the-money call (put),
- (e) a short call (put) paired with a long (short) futures contract,
- (f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call, and
- (g) an out-of-the-money short put paired with an out-of-the-money long put.

(10) Line 4 – Margin on deposits with correspondent brokers

- (i) Where a *correspondent broker* owes assets (including cash, open trade equity and securities) to a *Dealer Member* exceeding 50% of the *Dealer Member's* net allowable assets, the excess amount must be provided as a charge in computing the *Dealer Member's* margin required.

The assets owing to the *Dealer Member* are the amount of deposits before reducing this amount by the *maintenance margin requirements* for all open positions.

- (ii) Where the net worth of the *correspondent broker* (as determined from its latest published audited financial statements) is less than or equal to \$50,000,000, the *Dealer Member* must provide the amount calculated in note 10(i). If net worth exceeds \$50,000,000, then no margin is required.
- (iii) Where a *Dealer Member* who operates its futures contracts and futures contract options business on a fully disclosed basis with a *correspondent broker*, no exemption from this requirement is permitted.

Form 1, Part II – Schedule 16

Mutual Fund Dealer Member's name

Date

Early warning tests - Mutual Fund Dealer Member (Level 1, 2 and 3 Dealers)

C\$000's

A. Liquidity test

Is *early warning excess* [Statement C, Line 11] less than 0?

Yes/No

B. Capital test

Is *risk adjusted capital* [Statement B, Line 31] less than 0?

Yes/No

C. Profitability test #1

Profit or loss for 3
months ending with
current month

C\$000's

[see note 3]

Months

1. Current month

2. Preceding month

3. 3rd month

4. Total [see note 4]

=====

5. *Risk adjusted capital* [at Form 1 date]

=====

Is loss on Line 4 greater than Line 5?

Yes/No

D. Profitability test #2

Profit or loss for 6
months ending with
current month

C\$000's

[see note 3]

Months

1. Current month

2. Preceding month

3. 3rd month

4. 4th month

5. 5th month

6. 6th month

7. Total [see note 5]

=====

8. *Risk adjusted capital* [at Form 1 date]

=====

Is loss on Line 7 greater than Line 8?

Yes/No

E. Frequency penalty

1. Has the *Dealer Member* triggered early warning at least 3 times in the past 12 months?

Yes/No

Form 1, Part II – Schedule 16

Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a Level 1, 2 or 3 Dealer heading into financial trouble and to impose restrictions and *sanctions* to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate early warning has been triggered.
- (2) Level 1, 2 or 3 Dealers are subject to the early warning tests on Schedule 16.
- (3) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal *subordinated debt*, bonuses, and income taxes (Statement D, Line 35 – Profit (loss) for early warning test). The “current month” figure must also reflect any audit adjustments made subsequent to the filing of the *monthly financial report* (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 regulatory financial filing system.
- (4) **Schedule 16, Section C – Profitability test #1** - If the total is a profit, no further calculation is required under this section. Enter a “No” answer.
- (5) **Schedule 16, Section D – Profitability test #2** - If the total is a profit, no further calculation is required under this sections. Enter a “No” answer.

Form 1, Part II – Schedule 17

Dealer Member's name

Date

**Early warning tests – Level 1
(for Investment Dealer Members and Level 4 Dealers)**

C\$000's

A. Liquidity test

Is *early warning reserve* [Statement C, Line 13] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 31]

2. *Total margin required* [Statement B, Line 26] multiplied by 5%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

		Profit or loss for 6 months ending with current month	Profit or loss for 6 months ending with preceding month
	Months	C\$000's [see note 4]	C\$000's [see note 4]
1.	Current month	_____	_____
2.	Preceding month	_____	_____
3.	3rd month	_____	_____
4.	4th month	_____	_____
5.	5th month	_____	_____
6.	6th month	_____	_____
7.	7th month	_____	_____
8.	Total [see note 5]	_____	_____
9.	Average multiplied by -1	_____	_____
10A.	<i>Risk adjusted capital</i> [at Form 1 date]	_____	_____
10B.	<i>Risk adjusted capital</i> [at preceding month end]	_____	_____
11A.	Line 10A divided by Line 9	_____	_____
11B.	Line 10B divided by Line 9	_____	_____

Are both of the following conditions true:

- Line 11A is greater than or equal to 3 but less than 6, and
- Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 2 and 4] multiplied by -6

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

Form 1, Part II – Schedule 17A

Dealer Member's name

Date

Early warning tests – Level 2 (for Investment Dealer Members and Level 4 Dealers)

C\$000's

A. Liquidity test

Is *early warning excess* [Statement C, Line 11] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 31]

2. *Total margin required* [Statement B, Line 26] multiplied by 2%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

Is Schedule 17, Section C, Line 11A less than 3 and
Schedule 17, Section C, Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 4 and 6] multiplied by -3

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

E. Profitability test #3

Profit or loss for 3
months ending with
current month

C\$000's

[see note 4]

Months

1. Current month

2. Preceding month

3. 3rd month

4. Total [see note 7]

5. *Risk adjusted capital* [at Form 1 date]

Is loss on Line 4 greater than Line 5?

Yes/No

F. Frequency penalty

1. Has the *Dealer Member* triggered early warning at least 3 times in the past 6
months or is *risk adjusted capital* less than 0?

Yes/No

2. Has the *Dealer Member* triggered liquidity or capital tests on Schedule 17?

Yes/No

3. Has the *Dealer Member* triggered profitability tests on Schedule 17?

Yes/No

4. Are Lines 2 and 3 both yes?

Yes/No

Form 1, Part II – Schedules 17 and 17A

Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a *Dealer Member* heading into financial trouble and to impose restrictions and *sanctions* to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate early warning has been triggered.
- (2) *Investment Dealer Members* and Level 4 Dealers are subject to the early warning tests on Schedule 17 and 17A.
- (3) If the *Investment Dealer Member* or Level 4 Dealer is currently capital deficient (i.e. *risk adjusted capital* is negative), only Line 1 of Part F in Schedule 17A must be completed. Schedule 17 and the remainder of Schedule 17A do not need to be completed.
- (4) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal *subordinated debt*, bonuses, and income taxes (Statement D, Line 35 – Profit (loss) for early warning test). The “current month” figure must also reflect any audit adjustments made subsequent to the filing of the *monthly financial report* (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 regulatory financial filing system.
- (5) **Schedule 17, Section C - Profitability test #1, Schedule 17A, Section C - Profitability test #1** - If either or both of the calculated totals is a profit, no further calculation is required under these sections.
- (6) **Schedule 17, Section D - Profitability test #2 and Schedule 17A, Section D - Profitability test #2** - If the amount is a profit, no further calculation is required under these sections.
- (7) **Schedule 17A, Section E - Profitability test #3** - If the total is a profit, no further calculation is required under this section.

Form 1, Part II – Schedule 18

Dealer Member's name

Date

Supplementary information

(Figures not subject to audit)

C\$000's

A. Segregation

1. Aggregate market value of securities required to be recalled from call loans

No.

B. Number of employees

1. Number of employees - registered
2. Number of employees - other

C. Number of trades executed during the month

1. Bonds
2. Money market
3. Equities – Listed Canadian
4. Equities – Foreign
5. Options
6. Futures contracts
7. Mutual funds
8. New issues
9. Other
- Total

D. Number of Dealing Representatives – Mutual Fund Dealer Members only

1. Number of representatives registered only in Quebec
2. Number of representatives registered outside Quebec
- Total

Notes and instructions:

- (1) *Mutual Fund Dealer Members* and *Investment Dealer Members* offering margin and engaging in call loan activities must report the aggregate market value of securities required to be recalled from call loans to meet segregation requirements.
- (2) All *Dealer Members* must report the number of employees and number of trades under Part B and C. Only *Mutual Fund Dealer Members* are required to report number of dealing representatives under Part D.
- (3) Part C - Trade tickets, not fills, for all markets must be counted.
- (4) Part D – The *Mutual Fund Dealer Member* should report the number of Approved Persons who are engaged in selling activities. This would include licensed assistants, trading partners/directors/officers registered to the *Mutual Fund Dealer Member* and sales representatives who have direct dealings with clients.

Form 1, Part II – Schedule 19

Dealer Member's name

Date

Assets under administration information

(Figures not subject to audit)

Current period
C\$000's

A. Mutual Fund Dealer Members

Nominee name client positions

All products

1. Assets under Administration (excluding Quebec)

2. Assets under Administration (total including Quebec)

Investment (Mutual) Funds only

3. Assets under Administration (excluding Quebec)

4. Assets under Administration (total including Quebec)

Client name positions

All products

5. Assets under Administration (excluding Quebec)

6. Assets under Administration (total including Quebec)

Investment (Mutual) Funds only

7. Assets under Administration (excluding Quebec)

8. Assets under Administration (total including Quebec)

Cash

9. Held for clients (excluding Quebec)

10. Held for clients (total including Quebec)

B. Investment Dealer Members

1. Market value of client name positions and outside holdings not included in client net equity

Form 1, Part II – Schedule 19
Notes and instructions

- (1) This schedule must be completed and filed by the *Dealer Member*, where applicable, in the *monthly financial report*.
- (2) **Part A Line 1** - Assets under administration for this line is the total market value of all nominee name *investment product* positions held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada, excluding Quebec.
- (3) **Part A Line 2** - Assets under administration for this line is the total market value of all nominee name *investment product* positions held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada.
- (4) **Part A Line 3** - Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada, excluding Quebec.
- (5) **Part A Line 4** - Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada.
- (6) **Part A Line 5** - Assets under administration for this line is the total market value of all client name *investment product* positions for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada, excluding Quebec.
- (7) **Part A Line 6** - Assets under administration for this line is the total market value of all client name *investment product* positions for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada.
- (8) **Part A Line 7** - Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada, excluding Quebec.
- (9) **Part A Line 8** - Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada.
- (10) **Part A Line 9** – *Mutual Fund Dealer Members* must report on this line, the total cash held for clients in all provinces of Canada, excluding Quebec.
- (11) **Part A Line 10** – *Mutual Fund Dealer Members* must report on this line, the total cash held for clients in all provinces of Canada.
- (12) **Part B Line 1** – The client net equity reported on Schedule 12 includes client assets held or controlled by the *Dealer Member* on the client's behalf but does not include client assets held outside of the control of the *Dealer Member* such as book-based client name assets. *Investment Dealer Members* must report on this line, total market value of all *investment products* reflected in the records they are required to maintain for *outside holdings*.
- (13) Assets of non-resident clients should also be included in the determination of assets under administration for this schedule as the *Dealer Member* is providing service to the clients, whether it be advice, periodic client statements, or other back-office support.

Rule Consolidation Project – Phase 5 – DC Form 1

A blackline copy of the proposed DC Form 1 to the IDPC Form 1 follows:

Proposed amendments to CIRO Rules have been published for comments under CIRO Bulletin 24-0067 *Fully paid securities lending and financing arrangements*. We show how these proposed amendments, presented in grey boxes, will be brought into the DC Form 1 if approved in their current state, for awareness and context only.

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Statement FE Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) or fund balances (not-for-profit)		Jan-2023xxx- xxxx
Statement F Statement of free credit segregation amount – Investment Dealer Members ¹		xxx-xxxx
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Agreed-upon Procedures Report on compliance for insurance, segregation of ~~securities~~ investment products , and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members ²		Feb-2024 xxx-xxxx
Schedule 1 Analysis of loans receivable, securities borrowed and resale agreements		Jan-2023xxx-

¹ [Where a Mutual Fund Dealer Member decides to use client free credit cash balances within their operations, the Mutual Fund Dealer Member must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members', complete and file Statement F, and the auditors must file an audit opinion on Statements B, C and E.](#)

¹ ~~Schedules 3 and 8 have been removed.~~

² [Where a Mutual Fund Dealer Member decides to offer margin accounts, the Mutual Fund Dealer Member must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members', complete and file the appropriate client margin and concentration schedules, and the auditors must file the agreed-upon procedure report on compliance for insurance, segregation of investment products and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members'.](#)

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Schedule ~~7~~ 9	Analysis of ~~overdrafts~~ , loans, securities loaned and repurchase agreements	~~Jan-2023~~ xxx- XXXX
Schedule ~~7A~~ 9A	Cash and securities borrowing and lending arrangements concentration charge	~~Jan-2023~~ xxx- XXXX
~~Schedule 9~~	~~Concentration of securities~~	~~Jan-2023~~
~~Schedule 9A~~	~~Concentration of securities - General Security Test~~	~~Jan-2023~~
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~~Schedule 12~~	~~Margin on futures concentrations and deposits~~	~~Jan-2023~~
~~Schedule 13~~	~~Early warning tests - Level 1~~	~~Jan-2023~~
Schedule 13A	~~Early warning tests - Level 2~~ Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000 - Mutual Fund Dealer Members	~~Jan-2023~~ xxx- XXXX
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Form 1 – Table of contents (Continued)

Schedule 16	Early warning tests – Mutual Fund Dealer Members (Level 1, 2, and 3 Dealers)	xxx-xxxx
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Schedule ~~15~~ 18	Supplementary information ²³	~~Jan-2023~~ xxx- xxxx
Schedule 19	Assets under administration information ³	xxx-xxxx

²³ “Schedule ~~15~~[18](#), Supplementary information”, ~~is~~ and “[Schedule 19, Assets under administration information](#)” ~~are~~ not part of an audited Form 1 submission and the ~~name~~[names](#) of ~~this~~[these](#) schedule will not appear in the “Table of contents” on the electronic or hardcopy version of an audited Form 1 submission.

Form 1 – General notes and definitions

- (1) Each *Dealer Member* must comply with the requirements in Form 1 as approved and amended from time to time by the Board.

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the *Corporation*.

- (2) Each *Dealer Member* must complete and file ~~all of these~~ the statements and schedules as listed in the tables below.

(2)

A Level 1, 2 and 3 Mutual Fund Dealer Member must complete and file the following statements and schedules with the audited annual Form 1 and monthly financial report:

<u>Annual Form 1</u>	<u>Monthly financial report</u>
<u>Statements A, B, C, D and E ¹</u>	<u>Statements A, B, C, and D</u>
<u>Schedules 1 and 2</u>	<u>Schedule 2</u>
<u>Schedules 3 and 5</u>	<u>Schedule 12</u>
<u>Schedules 6 and 8 to 10B</u>	<u>Schedule 16</u>
<u>Schedules 12 to 14</u>	<u>Schedule 18</u>
<u>Schedule 16</u>	<u>Schedule 19 – Part A only</u>

A Level 4 Mutual Fund Dealer Member must complete and file the following statements and schedules with the audited annual Form 1 and monthly financial report:

<u>Annual Form 1</u>	<u>Monthly financial report</u>
<u>Statements A, B, C, D and E ¹</u>	<u>Statements A, B, C, and D ¹</u>
<u>Schedules 1 and 2</u>	<u>Schedule 2</u>
<u>Schedules 3² and 5</u>	<u>Schedule 12</u>
<u>Schedules 6 and 8 to 10B ³</u>	<u>Schedule 17 and 17A</u>
<u>Schedules 12 to 14</u>	<u>Schedule 18</u>
<u>Schedule 17 and 17A</u>	<u>Schedule 19 – Part A only</u>

¹ A Level 4 Mutual Fund Dealer Member that chooses to use client free credit cash in their operations must also file Statement F in the annual Form 1 and monthly financial report.

² A Level 4 Mutual Fund Dealer Member that offers client margin lending must file Schedule 4 in the annual Form 1, instead of Schedule 3, and file Schedule 4 Line 3(a) and 3(c) in the monthly financial report.

³ A Level 4 Mutual Fund Dealer Member that offers client margin lending must file Schedule 11, 11A and 11B instead of Schedule 10, 10A and 10B in the annual Form 1.

An Investment Dealer Member must complete and file the following statements and schedules with the audited annual Form 1 and monthly financial report:

<u>Annual Form 1</u>	<u>Monthly financial report</u>
<u>Statements A, B, C, D, E and F</u>	<u>Statements A, B, C, D and F</u>
<u>Schedules 1 to 2B</u>	<u>Schedule 2</u>
<u>Schedules 4 and 5</u>	<u>Schedule 4 – Line 3(a) and 3(c) only</u>
<u>Schedules 7 to 9A</u>	<u>Schedule 12</u>
<u>Schedules 11 to 15</u>	<u>Schedule 17 and 17A</u>
<u>Schedule 17 and 17A</u>	<u>Schedule 18 – Part A, B and C only</u>
	<u>Schedule 19 – Part B only</u>

- (3) The following are Form 1 IFRS departures as prescribed by the *Corporation*:

Matter	Prescribed IFRS departure
Client and broker trading balances	For client and broker trading balances, the <i>Corporation</i> allows the netting of receivables from and payables to the same counterparty. A <i>Dealer Member</i> may choose to report client and broker trading balances in accordance with IFRS.

Form 1 – General notes and definitions (Continued)

Matter	Prescribed IFRS departure
Preferred shares	Preferred shares issued by the <i>Dealer Member</i> and approved by the <i>Corporation</i> are classified as shareholders' capital.
Presentation	Statements A and ED contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. For Statement ED, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax). In addition, specific balances may be classified or presented on Statements A, ED and FE in a manner that differs from IFRS requirements. The general notes and definitions, and the applicable notes and instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist. Statements B, C, and DE are supplementary financial information, which are not statements contemplated under IFRS.
Separate financial statements on a non-consolidated basis	Consolidation of <i>subsidiaries</i> is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a “<i>related company</i>” in subsection 1201(2) of the ~~Corporation Investment-Dealer and Partially~~ Consolidated Rules and the <i>Corporation</i> has approved the consolidation. Because Statement ED only reflects the operational results of the <i>Dealer Member</i>, a <i>Dealer Member</i> must not include the income (loss) of an investment accounted for by the equity method.
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Subordinated loan	For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted.
Valuation	The <i>Corporation requirements</i> ’ “ <i>market value</i> ” definition differs from the IFRS “ <i>fair value</i> ” definition as it does not assume that all security, precious metals bullion and <i>futures contracts</i> positions have a value and it provides specific instructions on how to value positions in these different types of financial assets.

([34](#)) The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

Matter	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and <i>derivative</i> positions of a <i>Dealer Member</i> must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	A <i>Dealer Member</i> must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the <i>Corporation</i> does not permit the use of the available for sale and held-to-maturity categories, a <i>Dealer Member</i> must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.

Form 1 – General notes and definitions (Continued)

Valuation of a <i>subsidiary</i>	A <i>Dealer Member</i> must value <i>subsidiaries</i> at cost.

- (45) These statements and schedules are prepared in accordance with the *Corporation requirements*.
- (56) For purposes of these statements and schedules, the accounts of related companies that meet the definition of a “*related company*” in subsection 1201(2) of the ~~Corporation Investment~~ Dealer and ~~Partially~~ Consolidated Rules may be consolidated.
- (67) For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the notes and instructions to Form 1.
- (78) *Dealer Members* may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. *Dealer Members* may also determine margin deficiencies for *acceptable institutions*, *acceptable counterparties*, *regulated entities* and investment counselors’ accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, *Dealer Members* must do so for all such accounts and consistently from period to period.
- (89) Comparative figures on all statements are only required at the audit date.
- (910) All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
- (1011) Supporting details should be provided – as required – showing breakdown of any significant amounts that have not been clearly described on the statements and schedules.
- (1112) Mandatory security count - All *securities* except those held in *segregation* or *safekeeping* shall be counted once a month, or monthly on a cyclical basis. Those held in *segregation* and *safekeeping* must be counted once in the year in addition to the count as at the year-end audit date.
- (1213) Mandatory reconciliations - Reconciliations must be performed monthly in addition to the year-end audit date between the Dealer Member’s records and the records of the depository or custodian where the Dealer Member holds its own and client securities.
- (14) The following terms have the meanings set out when used in Form 1 and the *Corporation requirements*:

“acceptable clearing corporation”	Any clearing agency operating a central system for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency’s powers of compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of acceptable clearing corporations.
“acceptable counterparty”	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows: (i) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. <i>subordinated debt</i>) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection. (ii) Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is

Form 1 – General notes and definitions (Continued)

	available for inspection. (iii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection. (iv) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over. (v) Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million. (vi) Corporations (other than <i>regulated entities</i>) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection. (vii) Trusts and limited partnerships (other than <i>regulated entities</i>) with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection. (viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (ix) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection. (x) Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection. (xi) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (xii) Federal governments of foreign countries which do not qualify as a <i>Basel Accord country</i>. For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i>. <i>Subsidiaries</i> (excluding <i>regulated entities</i>) whose business falls in the category of any of the above enterprises and whose parent or <i>affiliate</i> qualifies as an <i>acceptable counterparty</i> may also be considered as an <i>acceptable counterparty</i> if the parent or <i>affiliate</i> provides a written unconditional irrevocable guarantee, subject to approval by the <i>Corporation</i>.
“acceptable exchange”	An entity that: (i) operates as an exchange for securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation, (ii) if applicable, maintains and enforces adequate initial and ongoing listing requirements

Form 1 – General notes and definitions (Continued)

	for at least one exchange market or market tier, and (iii) maintains and enforces (or contracts with a regulatory services provider to maintain and enforce) adequate trading requirements for at least one exchange market or market tier.
“acceptable institution”	An entity with which a <i>Dealer Member</i> is permitted to deal on an unsecured basis without capital penalty. The entities are as follows: (i) Government of Canada, the Bank of Canada and provincial governments. (ii) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments. (iii) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. <i>subordinated debt</i>) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection. (iv) Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection. (v) Federal government of a <i>Basel Accord country</i>. (vi) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection. (vii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection. (viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. (ix) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted. For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i>. <i>Subsidiaries</i> (other than <i>regulated entities</i>) whose business falls in the category of any of the above enterprises and whose parent or <i>affiliate</i> qualifies as an <i>acceptable institution</i> may also be considered as an <i>acceptable institution</i> if the parent or <i>affiliate</i> provides a written unconditional irrevocable guarantee, subject to approval by the <i>Corporation</i>.

Form 1 – General notes and definitions (Continued)

“acceptable securities location”	A location considered suitable to hold securities, <u>precious metals bullion and other like assets</u>, on behalf of a <i>Dealer Member</i>, for both inventory and client positions, without capital penalty. To be suitable, the location must meet <i>segregation</i> and custody <i>Corporation requirements</i> including, but not limited to, the requirement for a written custody agreement. The written custody agreement must outline the terms under which securities are deposited and include <u>the provisions that set out in section 4353</u>. ~~no use or disposition of the securities shall be made without the prior written consent of the Dealer Member, and~~ ~~the securities can be delivered to the Dealer Member promptly on demand.~~ The entities with locations that are considered suitable are as follows: (i) Depositories and Clearing Agencies Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository’s or clearing agency’s powers of compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria. (ii) <i>Acceptable institutions</i> and <i>subsidiaries of acceptable institutions</i> that satisfy the following criteria: (a) <i>Acceptable institutions</i> which in their normal course of business offer custodial security services, or (b) <i>Subsidiaries of acceptable institutions</i> provided that each such subsidiary, together with the <i>acceptable institution</i>, has entered into a custodial agreement with the <i>Dealer Member</i> containing a legally enforceable indemnity by the <i>acceptable institution</i> in favour of the <i>Dealer Member</i> covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the <i>Dealer Member</i> and its clients at the <i>subsidiary’s</i> location. (iii) <i>Acceptable counterparties</i> - with respect to security positions maintained as a book entry of securities issued by the <i>acceptable counterparty</i> and for which the <i>acceptable counterparty</i> is unconditionally responsible. (iv) Banks and trust companies otherwise classified as <i>acceptable counterparties</i> - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required). (v) Mutual Funds or their agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible. (vi) <i>Regulated entities</i>. (vii) Foreign institutions and securities dealers that satisfy the following criteria: (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Canadian \$150 million as evidenced by the audited financial statements of such entity, provided that: (i) a foreign custodian certificate has been completed and signed in the

Form 1 – General notes and definitions (Continued)

	prescribed form by the <i>Dealer Member's</i> board of directors or authorized committee, (II) a formal application in respect of each such foreign location is made by the <i>Dealer Member</i> to the <i>Corporation</i> in the form of a letter enclosing the financial statements and certificate described above, and (III) the <i>Dealer Member</i> reviews each such foreign location annually and files a foreign custodian certificate with the <i>Corporation</i> annually. (viii) For London Bullion Market Association (LBMA) gold and silver good delivery bars, those entities considered suitable to hold these bars on behalf of a <i>Dealer Member</i>, for both inventory and client positions, without capital penalty must: (a) be a market making member, full member, or affiliate member of the LBMA, (b) be on the <i>Corporation's</i> list of entities considered suitable to hold LBMA gold and silver good delivery bars, and (c) have executed a written precious metals storage agreement with the <i>Dealer Member</i>, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the <i>Dealer Member</i>, and these bars can be delivered to the <i>Dealer Member</i> promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the <i>Dealer Member</i> as the standard securities custodial agreement. (ix) Other locations which have been approved as an <i>acceptable securities location</i> by the <i>Corporation</i>.
"Basel Accord country"	A country that is a member of the Basel Accord and has adopted the banking and supervisory rules set out in the Basel Accord. (The Basel Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.) A list of current <i>Basel Accord countries</i> is included in the most recent Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.
" <u>broad-based index</u> " " <u>diversified investment product</u> "	~~An equity index in which:~~ ~~(i) —the~~ ~~A security whose underlier is a~~ basket of ~~equity securities underlying the index~~ <u>investment products</u> consists of thirty or more ~~securities~~ <u>products, where,</u> ~~(ii)~~ the single largest basket ~~security~~ <u>investment product</u> position by weighting comprises not more than 20% of the overall <i>market value</i> of the basket, ~~(iii)~~ the average market capitalization associated with ~~each security in the basket of any equity securities underlying in~~ the ~~index~~ <u>basket</u> is at least \$100 million, ~~(iv)~~ the basket securities shall be from a broad range of industries and market sectors as determined by the <i>Corporation</i> to represent ~~index~~ <u>diversification, and</u> ~~(v)~~ ~~the index constituent any equity securities in the basket~~ are listed and traded on an <u>acceptable exchange, and</u> <u>(v) —the basket of investment products does not include any derivatives.</u>

Form 1 – General notes and definitions (Continued)

“designated rating organization”	A credit rating organization, or its designated <i>affiliate</i>, or designated successor credit rating organization, that has been designated under securities laws. If the designation of a designated rating organization under securities laws is subject to terms and conditions that only recognize its credit ratings for certain purposes or certain asset classes, then any use of its credit ratings for the purposes of this definition is subject to the same terms and conditions, unless specified otherwise. Any reference to a particular rating category of a designated rating organization includes: (i) the corresponding rating category of another <i>designated rating organization</i>, (ii) where applicable, the corresponding rating category for short term debt, and (iii) a category that replaces that rating category.
“extended settlement date”	A transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.
“market value”	Means: (i) ~~For securities, precious metals bullion and futures contracts quoted on an active market, the published price quotation using:~~ (A) ~~For listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,~~ (B) ~~For unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,~~ (C) ~~For all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate,~~ (D) ~~For futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date,~~ (E) ~~For money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,~~ (F) ~~For money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (E) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and~~ (G) ~~For money market repurchases with borrower call features, the borrower call price,~~ ~~and after making any adjustments considered by the Dealer Member to be necessary to accurately reflect the market value.~~ (ii) ~~Where a reliable price for the security, precious metals bullion or futures contract cannot be determined:~~

Form 1 – General notes and definitions (Continued)

	~~(A) The value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly, or~~ ~~(B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or~~ ~~(C) Where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate that range, cost.~~ ~~(iii) Where a value cannot be reliably determined under subsections (i) and (ii) above, the amount used:~~ ~~(A) to report the total market value of a Dealer Member securities position, and~~ ~~(B) to calculate the margin requirement for a client account securities position,~~ ~~shall be zero.~~
“regulated entity”	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entity is a <i>Dealer Member</i> or a securities dealer that is subject to adequate regulatory oversight by a regulator or self-regulatory organization equivalent to the <i>Corporation</i>. For the purposes of this definition, regulators and self-regulatory organizations with equivalent dealer regulatory oversight must meet the following criteria: (i) require its dealers to be member firms of the <i>Investor Protection Fund (IPF)</i> or of an investor protection regime that is equivalent to <i>IPF</i>, (ii) be a government agency or a self-regulatory organization subject to regulatory oversight reviews by a government agency, (iii) require the <i>segregation</i> of customers’ fully paid for securities by its regulated dealers, (iv) have rules that set out specific methodologies for the <i>segregation</i> of, or reserve for, customer credit balances, (v) have established rules regarding dealer and customer account margining, (vi) conduct regular examinations of its regulated dealers and monitor their regulatory capital on an ongoing basis, and (vii) require regular regulatory financial reporting by its regulated dealers. The regulators and self-regulatory organizations are determined at the discretion of the <i>Corporation</i>, as made available on the <i>Corporation’s</i> website.
“regular settlement date”	The settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 <i>business days</i> past trade date, settlement date will be deemed to be 15 <i>business days</i> past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Mutual Fund Dealer Members

Mutual Fund Dealer Member's Name

We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the financial position and capital of the Mutual Fund Dealer Member at _____ and the results of operations for the period then ended, and are in agreement with the books of the Mutual Fund Dealer Member.

We certify that the following information is true and correct to the best of our knowledge for the period from the last audit to the date of the attached statements, which have been prepared in accordance with the current Corporation requirements:

Answer

1. <u>Does the Mutual Fund Dealer Member have adequate internal controls in accordance with the rules?</u>	_____
2. <u>Does the Mutual Fund Dealer Member maintain adequate books and records in accordance with the rules?</u>	_____
3. <u>Does the Mutual Fund Dealer Member monitor on a regular basis its adherence to early warning requirements in accordance with the rules?</u>	_____
4. <u>Does the Mutual Fund Dealer Member carry insurance of the type and in the amount required by the rules?</u>	_____
5. <u>Does the Mutual Fund Dealer Member determine on a regular basis its segregation amount and act promptly to segregate assets as appropriate in accordance with the rules?</u>	_____
6. <u>Does the Mutual Fund Dealer Member promptly segregate clients' cash and securities in accordance with the rules?</u>	_____
7. <u>Does the Mutual Fund Dealer Member perform regular reconciliations of its trust accounts in accordance with the rules?</u>	_____
8. <u>Does the Mutual Fund Dealer Member perform regular reconciliations of its transactions with fund company and other financial institution records in accordance with the rules?</u>	_____
9. <u>Have all "concentrations of securities" been identified on Schedule 10?</u>	_____

Do the attached statements fully disclose all assets and liabilities including the following:

10. <u>All future purchase and sales commitments?</u>	_____
11. <u>Writs issued against the Mutual Fund Dealer Member or partners or any other litigation pending?</u>	_____
12. <u>Income tax arrears?</u>	_____
13. <u>Other contingent liabilities, guarantees, accommodation endorsements or commitments affecting the financial position of the Mutual Fund Dealer Member?</u>	_____

Ultimate Designated Person

Date

Chief Financial Officer

Date

Other Executive, if applicable

Date

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Investment Dealer Members

Investment Dealer Member's Name

We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the financial position and capital of the Investment Dealer Member at _____ and the results of operations for the period then ended, and are in agreement with the books of the Investment Dealer Member.

We certify that the following information is true and correct to the best of our knowledge for the period from the last audit to the date of the attached statements, which have been prepared in accordance with the current *Corporation requirements*:

	Answer
1. Does the <u>Investment Dealer Member</u> have adequate <i>internal controls</i> in accordance with the rules?	_____
2. Does the <u>Investment Dealer Member</u> maintain adequate books and <i>records</i> in accordance with the rules?	_____
3. Does the <u>Investment Dealer Member</u> monitor on a regular basis its adherence to early warning requirements in accordance with the rules?	_____
4. Does the <u>Investment Dealer Member</u> carry insurance of the type and in the amount required by the rules?	_____
5. Does the <u>Investment Dealer Member</u> determine on a regular basis its free credit <i>segregation</i> amount and act promptly to segregate assets as appropriate in accordance with the rules?	_____
6. Does the <u>Investment Dealer Member</u> promptly segregate clients' securities in accordance with the rules?	_____
7. Does the <u>Investment Dealer Member</u> follow the minimum required policies and procedures relating to security counts?	_____
8. Have all "concentrations of securities" been identified on Schedule <u>911</u> ?	_____
Do the attached statements fully disclose all assets and liabilities including the following:	
9. Participation in any underwriting or other agreement subject to future demands?	_____
10. Outstanding puts, calls or other <i>options</i> ?	_____
11. All future purchase and sales commitments?	_____
12. Writs issued against the <u>Investment Dealer Member</u> or partners or any other litigation pending?	_____
13. Income tax arrears?	_____
14. Other contingent liabilities, <i>guarantees</i> , accommodation endorsements or commitments affecting the financial position of the <u>Investment Dealer Member</u> ?	_____

Ultimate Designated Person

Date

Chief Financial Officer

Date

Other Executive, if applicable

Date

Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO)

Notes and instructions

(1)

(1) If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or use client free credit balances in its operations under subsection 4382(2), the *Mutual Fund Dealer Member* must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members' and submit this version of the certificate with the audited annual Form 1.

(2) Details must be given for any “no” answers.

(23) To be signed by:

- (i) *Ultimate Designated Person* (UDP),
- (ii) *Chief Financial Officer* (CFO), and
- (iii) at least one other *Executive* if the UDP and CFO are the same person.

Where there is only one individual that meets the qualifications of the positions listed above, this individual must sign the certificate.

Independent Auditor's Report for Statements A, ED and FE

To: <name of Self-Regulatory Organization> and <name of Investor Protection Fund>

Opinion

We have audited the Statements of Form 1 of <Dealer Member's name>, which comprise of:

- Statement A - Statements of financial position as at <date> and <date>,
- Statement ED - Statements of income and comprehensive income for the years ended <date> and <date>,
- Statement FE - Statements of changes in capital for the year ended <date>, and changes in retained earnings (or undivided profits) for the years ended <date> and <date>, and notes to the Statements, including material accounting policy information (collectively referred to as the Statements).

In our opinion, the accompanying Statements present fairly, in all material respects the financial position of the Dealer Member as

at <date> and <date>, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <name of Self-Regulatory Organization>.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note <note> to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <name of Self-Regulatory Organization>. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note <note> in the statements which indicates that [insert key events and conditions that resulted in the material uncertainty]. As stated in note <note> in the Statements, these events and conditions, along with other matters as set forth in note <note> in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules 1316, 17 and 1317A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, <name of Self-Regulatory Organization> and <name of Investor Protection Fund> and should not be used by parties other than the Dealer Member, <name of Self-Regulatory Organization> and <name of Investor Protection Fund>.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation and fair presentation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <name of Self-Regulatory Organization>, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report for Statements A, ED and FE (Continued)

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Statements, including the disclosures, and whether the Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Independent Auditor's Report for Statement B and C – Mutual Fund Dealer Members

To: _____ <name of Self-Regulatory Organization> _____ and _____ <name of Investor Protection Fund> _____

Opinion

We have audited the Statements of Form 1 of _____ <Dealer Member's name> _____, which comprise of:

- Statement B – Statements of net allowable assets and risk adjusted capital as at _____ <date> _____ and _____ <date> _____
- Statement C – Statements of early warning excess and early warning reserve as at _____ <date> _____.

In our opinion, the accompanying Statement B as at _____ <date> _____ and _____ <date> _____ and Statement C as at _____ <date> _____ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____ <name of Self-Regulatory Organization> _____.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note <note> _____ to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____ <name of Self-Regulatory Organization> _____. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note <note> _____ in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note <note> _____ in the Statements, these events and conditions, along with other matters as set forth in note <note> _____ in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules 16, 17A and 17B of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, _____ <name of Self-Regulatory Organization> _____ and _____ <name of Investor Protection Fund> _____ and should not be used by parties other than the Dealer Member, _____ <name of Self-Regulatory Organization> _____ and _____ <name of Investor Protection Fund> _____.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____ <name of Self-Regulatory Organization> _____, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a

Independent Auditor's Report for Statement B and C – Mutual Fund Dealer Members (Continued)

high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Independent Auditor's Report for Statement B, C, and ~~DF~~ – Investment Dealer Members

To: _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____

Opinion

We have audited the Statements of Form 1 of _____<Dealer Member's name>_____, which comprise of:

- Statement B - Statements of net allowable assets and risk adjusted capital as at _____<date>_____ and _____<date>_____
- Statement C - Statements of early warning excess and early warning reserve as at _____<date>_____
- Statement ~~DF~~ - Statements of free credit segregation amount as at _____<date>_____ (collectively referred to as the Statements).

In our opinion, the accompanying Statement B as at _____<date>_____ and _____<date>_____, Statement C and ~~DF~~ as at _____<date>_____ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting

We draw attention to note _____<note>_____ to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note _____<note>_____ in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note _____<note>_____ in the Statements, these events and conditions, along with other matters as set forth in note _____<note>_____ in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter – Unaudited information

We have not audited the information in Schedules ~~1316, 17~~ and ~~1317A~~ of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

Other matter – Restriction on use (Optional wording to either be removed or customized by audit firms)

Our report is intended solely for the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____ and should not be used by parties other than the Dealer Member, _____<name of Self-Regulatory Organization>_____ and _____<name of Investor Protection Fund>_____.

Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by _____<name of Self-Regulatory Organization>_____, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

Auditor's responsibilities for the audit of the Statements

Independent Auditor's Report for Statement B, C, and **DF – Investment Dealer Members** (Continued)

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

Form 1 – Independent Auditor’s Reports
Notes and instructions

- (1) A measure of uniformity in the form of the auditor's reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's reports shown above.
- (2) The auditor report form for Statement A, D and E is applicable for both *Mutual Fund Dealer Members* and *Investment Dealer Members*. The auditor report form for Statements B and C is applicable for *Mutual Fund Dealer Members* that do not use client free credit balances in their operations. The audit report form for Statements B, C and F is applicable to *Investment Dealer Members* and those *Mutual Fund Dealer Members* that choose to use client free credit balances in their operations under subsection 4382(2).
- (3) Any limitations in the scope of the audit must be discussed in advance with the *Corporation*. Discretionary scope limitations will not be accepted. Any other potential emphasis of matter and other matter paragraphs in the auditor's reports must be discussed in advance with the *Corporation*.

Form 1, Part 1 – Statement A

Dealer Member's name _____

Statement of financial position

at _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year</u> <u>C\$000's</u>	<u>Previous year</u> <u>C\$000's</u>
Liquid assets				
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				
12-13.				
Other allowable assets (receivables from acceptable institutions)				
13-14.				
14-15.				
15-16.				
16-17.				
17-18.				
18-19.				
20.				
Non-allowable assets				
19-21.				
20-22.				

Form 1, Part 1 – Statement A (Continued)

~~21-23.~~	Commissions and fees receivable			
~~22-24.~~	Interest and dividends receivable			
~~23-25.~~	Deferred tax assets			
~~24-26.~~	Intangible assets			
~~25-27.~~	Property, plant and equipment			
~~26-28.~~	Investments in <i>subsidiaries</i> and <i>affiliates</i>			
~~27-29.~~	Advances to <i>subsidiaries</i> and <i>affiliates</i>			
~~28-30.~~	Other assets [provide details]			
~~29-31.~~	Total non-allowable assets			
~~30-32.~~	Finance lease assets			
~~31-33.~~	Total assets			

Current liabilities

~~51.~~	<u>Bank overdrafts</u>			
~~51-52.~~	~~Overdrafts, loans~~ <u>Loans payable</u> , securities loaned and repurchases	Sch. ~~79~~		
~~52-53.~~	Securities sold short - <i>at market value</i>	Sch. 2		
~~53-54.~~	Client accounts	<u>Sch. 3 /</u> Sch. 4		
~~54-55.~~	Brokers and dealers <u>trading balances</u>	Sch. ~~56 /~~ <u>Sch. 7</u>		
~~56.~~	<u>Payable to introducing or carrying broker</u>			
~~55-57.~~	Provisions			
~~56-58.~~	Current income tax liabilities	Sch. ~~68~~		
~~59.~~	<u>Variable compensation payable</u>			
~~57-60.~~	Bonuses payable			
~~58-61.~~	Accounts payable and accrued expenses			
~~59-62.~~	Finance leases and lease-related liabilities			
~~60-63.~~	Other current liabilities [provide details]			
~~61-64.~~	Total current liabilities			

Non-current liabilities

~~62-65.~~	Provisions			
~~63-66.~~	Deferred tax liabilities			
~~64-67.~~	Finance leases and lease-related liabilities			
~~65-68.~~	Other non-current liabilities [provide details]			
~~66-69.~~	Subordinated loans			
~~67-70.~~	Total non-current liabilities			
~~68-71.~~	Total liabilities [Line ~~61-64~~ plus Line ~~67-70~~]			

Capital and reserves

~~69-72.~~	Issued capital	Stmt. ~~FE~~		
~~70-73.~~	Reserves	Stmt. ~~FE~~		
~~71-74.~~	Retained earnings or undivided profits <u>or fund balances</u>	Stmt. ~~FE~~		
~~72-75.~~	Total capital			
~~73-76.~~	Total liabilities and capital [Line ~~68-71~~ plus Line ~~72-75~~]			

Form 1, Part I – Statement A

Notes and instructions

- (1) *Dealer Members* are required to use the accrual basis of accounting.
- (2) **Line 2 – ~~The trustee~~ – For Mutual Fund Dealer Members, include reconciled client cash balances in trust accounts that are held at a Canadian financial institution qualifying as an acceptable institution. For Investment Dealer Members, include client cash balances deposited in trust** for RRSP ~~or~~ and other similar accounts ~~must qualify at a Canadian financial institution qualifying~~ as an *acceptable institution*.

Such trust accounts must be insured by the Canada Deposit Insurance Corporation (CDIC) or Autorité des marchés financiers (AMF) ~~to the full extent insurance is available~~. If not, then the *Dealer Member* must report 100% of the balance held in trust as non-allowable assets on Line ~~28~~30 (Non-allowable assets – other assets).

RRSP and other similar balances held at such trustee, but for which CDIC or the AMF insurance is not available, such as foreign currency accounts, can be classified as allowable assets.

The name of the RRSP trustee used by the *Dealer Member* must also be provided on Schedule 3 or Schedule 4.

- (3) **Line 4 – Securities on deposit (and related margin)** should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line ~~11~~13 of Schedule 2.
- (4) **Line 5 – Securities on deposit (and related margin)** should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line ~~11~~13 of Schedule 2.
- (5) **Line 11 – For an introducing broker (pursuant to an approved introducing/carrying broker agreement), include** unsecured balances receivable from ~~its~~the *carrying broker*, such as gross commissions and deposits in the form of cash, ~~should be reported on this line~~. Unsecured balances should only be included to the extent they are not being used by the *carrying broker* to reduce client margin requirements.

For a carrying broker (pursuant to an approved introducing/carrying broker agreement), include unsecured balances receivable from the introducing broker, such as service fees.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line ~~11~~13 of Schedule 2.

- (6) **Line 12 –** In the case of the ~~salesperson~~Registered Representative's portion of gross commissions and fees receivable, as recorded on Line 21 (Commissions and fees receivable), to the extent that there is written documentation that the broker does not have a liability to pay the ~~salesperson~~Registered Representative's commission until it is received, the ~~salesperson~~Registered Representative's portion of the gross commission receivable is an allowable asset.
- (7) ~~(6)~~ **Line ~~13~~14** – Include only overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.
- (8) ~~(7)~~ **Line ~~14~~15** – Include the recoverable portion of capital tax, Part VI tax, property taxes and any federal or provincial sales taxes.
- Include only to extent receivable from *acceptable institutions*.
- (9) ~~(8)~~ **Line ~~18~~19** – Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.
- Include only to extent receivable from *acceptable institutions*.
- (10) ~~(9)~~ **Line ~~19~~21** – Report the cash and *market value* of securities lodged with *acceptable clearing corporations* that represent fixed base deposits.
- (11) ~~(10)~~ **Line ~~20~~22** – To the extent receivable from other than *acceptable clearing corporations*, include all deposits whether margin deposits or variable and fixed base deposits.
- (12) ~~(11)~~ **Line ~~21~~23** – To the extent receivable from parties other than *acceptable institutions*.
- (13) ~~(12)~~ **Line ~~22~~24** – To the extent receivable from parties other than *acceptable institutions*.
- (14) ~~(13)~~ **Line ~~24~~26** – Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.
- (15) ~~(14)~~ **Line ~~26~~28** – Investments in *subsidiaries* and *affiliates* must be valued at cost.

Form 1, Part I – Statement A
Notes and instructions (Continued)

- (~~15~~16) **Line 2729** – A *Dealer Member* must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.
- (~~16~~17) **Line 2830** – Including but not limited to such items as:
- advances to *employees* (gross)
 - cash on deposit with non-acceptable institutions
 - cash surrender value of life insurance
 - other receivables from other than *acceptable institutions*
 - prepaid expenses
 - provincial contingency/fund deposits
- (~~17~~18) **Line 2931** – Non-allowable assets mean those assets that do not qualify as allowable assets.
- (~~18~~19) **Line 3032** – Assets arising from a finance lease (also known as a capitalized lease).
- (~~19~~20) **Line 51** – Overdrawn operating cash balances.
- (21) **Line 56** – For an introducing broker (pursuant to an approved introducing/carrying broker agreement), include amounts payable to the carrying broker by the introducing broker.
For a carrying broker (pursuant to an approved introducing/carrying broker agreement), include amounts payable to the introducing broker by the carrying broker.
- (22) **Line 5557** – Recognize a liability to cover specific expenditures relating to legal and constructive obligations. A *Dealer Member* cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.
- (~~20~~23) **Line 59** – Includes sales commissions and trailer fees owing to salespersons.
- (24) **Line 5760** – Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.
- (~~21~~25) **Line 6063** – Include unclaimed dividends and interest and current liabilities to subsidiaries and affiliates.
- (26) **Line 68** – Include non-current liabilities to subsidiaries and affiliates.
- (~~22~~27) **Line 6669** – Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the *Corporation*, obtained from a *chartered bank* or any other lending institution, *industry investor* approved as such by the *Corporation*, or non-industry investor subject to the *Corporation's* approval, the payment of which is deferred in favor of other creditors and is subject to regulatory approval.
- A *Dealer Member* must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the *Corporation* are parties.
- (~~23~~28) **Line 7073** – Reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. It also includes accumulated other comprehensive income (OCI).
- (~~24~~29) **Line 71** – ~~Retained earnings represent~~ 74 – The amount on this line represents the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits. For a Dealer Member structured as a corporation, this amount is referred to as retained earnings. For a Dealer Member structured as a partnership, this amount is referred to as undivided profits. For a Dealer Member structured as a not-for-profit organization, this amount is referred to as fund balances.

Form 1, Part I – Statement B

Dealer Member's name _____

Statement of net allowable assets and risk adjusted capital

at _____

	Reference	Notes	Current year C\$000's	Previous year C\$000's
1. Total capital	A- ~~72~~ <u>75</u>	-----	-----	-----
2. Add: Non-refundable leasehold inducements		-----	-----	-----
3. Add: Subordinated loans	A- ~~66~~ <u>69</u>	-----	-----	-----
<u>3b.</u> <u>Add: Non-current liabilities phase out adjustment (mutual fund dealers)</u>		-----	-----	-----
<u>4.</u> <u>Deduct: Externally restricted fund balances (For NFP only)</u>		-----	-----	-----
<u>4-5.</u> Regulatory financial statement capital [Sum of ~~Line~~ <u>Lines</u> 1 to <u>3b</u> minus <u>Line 4</u>]		-----	-----	-----
<u>5-6.</u> Deduct: Total non-allowable assets	A- ~~29~~ <u>31</u>	-----	-----	-----
<u>6-7.</u> Net allowable assets [Line <u>45</u> minus Line <u>56</u>]		-----	-----	-----
<u>7-8.</u> Deduct: Minimum capital		-----	-----	-----
<u>8-9.</u> Subtotal [Line <u>67</u> minus Line <u>78</u>]		-----	-----	-----
Deduct - Margin required:				
<u>9-10.</u> Loans receivable, securities borrowed and resold	Sch.1	-----	-----	-----
<u>10-11.</u> Securities owned and sold short	Sch.2	-----	-----	-----
<u>11-12.</u> Underwriting concentration	Sch.2A	-----	-----	-----
<u>12-13.</u> Client accounts	Sch. ~~3~~ / <u>Sch.</u> 4	-----	-----	-----
<u>13-14.</u> Brokers and dealers	Sch. ~~56~~ / <u>Sch.</u> <u>7</u>	-----	-----	-----
<u>14-15.</u> Loans and repurchases	Sch. ~~79~~	-----	-----	-----
<u>15-16.</u> Contingent liabilities [provide details]		-----	-----	-----
<u>16-17.</u> Financial Institution Bond deductible [greatest under any clause]	Sch. ~~10~~ <u>12</u>	-----	-----	-----
<u>17-18.</u> Unhedged foreign currencies	Sch. ~~11~~ <u>13</u>	-----	-----	-----
<u>18.</u> ~~Futures contracts~~	~~Sch.12~~	-----	-----	-----
19. Provider of capital concentration charge	Sch.14	-----	-----	-----
<u>19b.</u> <u>Provider of capital concentration charge phase in adjustment (mutual fund dealers)</u>		-----	-----	-----
<u>20.</u> <u>Futures contracts</u>	<u>Sch.15</u>	-----	-----	-----
<u>20-21.</u> Securities held at non-acceptable securities locations		-----	-----	-----
<u>22.</u> <u>Client cash not segregated in trust</u>		-----	-----	-----
<u>21-23.</u> <u>Acceptable counterparties</u> financing activities concentration charge	Sch. ~~79~~ <u>A</u>	-----	-----	-----
<u>22-24.</u> Unresolved differences [provide details]		-----	-----	-----
<u>23-25.</u> Other [provide details]		-----	-----	-----
<u>24-26.</u> Total margin required [Sum of Lines <u>910</u> to <u>2325</u>]		-----	-----	-----

See notes and instructions

Jan~~xxx~~-2023~~xxxx~~

Form 1, Part I – Statement B (Continued)

25.27.	Subtotal	[Line 89 less Line 2426]			
26.28.	Add: Applicable tax recoveries		Sch.68A		
27.29.	Risk adjusted capital before securities concentration charge				
	[Line 2527 plus Line 2628]				
28.30.	Deduct: Securities concentration charge of		Sch.910/Sch.11		
	less tax recoveries of		Sch.68A		
29.31.	Risk adjusted capital	[Line 2729 less Line 2830]			

Form 1, Part I – Statement B supplemental

Dealer Member's name

Date

Statement B – Line ~~222~~24: Details of unresolved differences

	Reconciled as at report date (Yes/No)	Number of items	Debit/short value (Potential losses)	Number of items	Credit/long value (Potential gains)	Required to margin
(a) Clearing						
(b) Brokers and dealers						
(c) Bank <u>and trust</u> accounts						
(d) Intercompany accounts						
(e) Mutual funds <u>– nominee</u> <u>accounts</u>						
(f) Security counts						
(g) Other unreconciled differences						
Total						<u><u>B-22B-24</u></u>

Form 1, Part 1 – Statement B
Notes and instructions

(1) Capital adequacy

A *Dealer Member* must have and maintain at all times *risk adjusted capital* in an amount not less than zero.

(2) Netting for margin calculation

When applying *Corporation requirements* for margin rules, a *Dealer Member* can net allowable assets and liabilities as well as security positions. Except where there is a prescribed IFRS departure, netting is for regulatory margin purposes only (and not for presentation purposes).

(3) Line 2 – Non-current liability – non-refundable leasehold inducements

In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the *Dealer Member* (i.e. the *Dealer Member* does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the *Dealer Member*), the non-current portion of the lease liability for leasehold inducements can be reported as an adjustment to *risk adjusted capital*.

~~(4)~~

(4) Line 3b – Non-current liabilities phase out adjustment

A Mutual Fund Dealer Member that reported non-current liabilities on their final MFD Form 1 before implementation of the DC Form 1 (Pre-DC Form 1 non-current liabilities) may add back a portion of these non-current liabilities when determining the net allowable assets during the transitional period following the implementation of the Dealer and Consolidated Rules. On Line 3b the Mutual Fund Dealer Member should report the lesser of:

(i) the amount that equals the Pre-DC Form 1 non-current liabilities multiplied by the phase out percentage in the chart below:

<u>Period following DC Rule Implementation</u>	<u>Phase out percentage</u>
<u>1st year</u>	<u>90%</u>
<u>2nd and 3rd year</u>	<u>80%</u>
<u>4th and 5th year</u>	<u>50%</u>
<u>6th year</u>	<u>0%</u>

and

(ii) the current total non-current liabilities, excluding subordinated debt, reported on Statement A (Lines 65 to 68).

(5) Line 4 – Externally restricted fund balances

For Dealer Members that are structured as a not-for-profit (NEP), any fund balances that are restricted by an external party, other than the Corporation, must be deducted from risk adjusted capital.

(6) Line ~~78~~ – Minimum capital

~~“Minimum capital” is \$250,000 except for a Type 1 introducing broker. For a Type 1 introducing broker~~

For Mutual Fund Dealer Members, the minimum capital amount is:

<u>\$25,000</u>	<u>for a firm designated as a Level 1 Dealer</u>
<u>\$50,000</u>	<u>for a firm designated as a Level 2 Dealer that is not registered as an investment fund manager under securities laws</u>
<u>\$75,000</u>	<u>for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under securities laws</u>
<u>\$100,000</u>	<u>for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under securities laws</u>
<u>\$200,000</u>	<u>for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients</u>
<u>\$250,000</u>	<u>for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients.</u>

For Investment Dealer Members, the minimum capital amount is ~~\$75,000~~.

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

<u>\$75,000</u>	<u>for a firm that is a Type 1 introducing broker</u>
<u>\$250,000</u>	<u>for a firm that is not a Type 1 introducing broker</u>

(57) Line 1516 – Contingent liabilities

No *Dealer Member* may give, directly or indirectly, by means of a loan, *guarantee*, the provision of security or of a covenant or otherwise, any financial assistance to an *individual* and/or corporation unless the amount of the loan, *guarantee*, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing *risk adjusted capital*.

The margin required shall be the amount of the loan, *guarantee*, etc. less the loan value of any accessible collateral, calculated in accordance with the *Corporation requirements*.

A *guarantee* of payment is not acceptable collateral to reduce margin required.

The *Dealer Member* should maintain and retain the details of the margin calculations for contingencies, such as *guarantees* or *returned cheques*, for the *Corporation's* review.

(68) Line 19b – Provider of capital concentration phase in adjustment

Where a *Mutual Fund Dealer Member* has a provider of capital concentration charge, the charge may be reduced by the following percentage during the transitional period following the implementation of the Dealer and Consolidated Rules:

<u>Period following DC Rule Implementation</u>	<u>Reduction percentage</u>
<u>1st year</u>	<u>90%</u>
<u>2nd and 3rd year</u>	<u>80%</u>
<u>4th and 5th year</u>	<u>50%</u>
<u>6th year</u>	<u>0%</u>

On Line 19b the *Mutual Fund Dealer Member* should report the amount that equals the provider of capital concentration charge multiplied by the reduction percentage in the chart above. This amount will be reduced in the determination of the total margin required.

(9) Line 2021 – Securities held at non-acceptable securities locations

(i) Capital Requirements

In general, the capital requirements for securities held in custody at another entity are as follows:

- (a) Where the entity qualifies as an *acceptable securities location*, there shall be no capital requirement, provided there are no unresolved differences between the amounts reported on the books of the entity acting as custodian and the amounts reported on the books of the *Dealer Member*. The capital requirements for unresolved differences are discussed separately in the notes and instructions for the completion of Statement B, Line 2224 below.
- (b) Where the entity does not qualify as an *acceptable securities location*, the entity shall be considered a non-acceptable securities location and the *Dealer Member* shall be required to deduct 100% of the *market value* of the securities held in custody with the entity in the calculation of its *risk adjusted capital*.

However, there is one exception to the above general requirements. Where the entity would otherwise qualify as an *acceptable securities location* except for the fact that the *Dealer Member* has not entered into a written custodial agreement with the entity, as required by *Corporation requirements*, the capital requirement shall be determined as follows:

- (l) Where setoff risk with the entity is present, the *Dealer Member* shall be required to deduct in the calculation of its *risk adjusted capital*, the lesser of:
 - (A) 100% of the setoff risk exposure to the entity, or
 - (B) 100% of the *market value* of the securities held in custody with the entity,and

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

- (II) The *Dealer Member* shall be required to deduct 10% of the *market value* of the securities held in custody with the entity in the calculation of its *early warning reserve*.

The sum of the requirements calculated in paragraphs (I) and (II) above shall be no greater than 100% of the *market value* of the securities held in custody with the entity. Where the sum amounts initially calculated in paragraphs (I) and (II) above are greater than 100%, the capital required under paragraph (II) and the amount reported as a deduction in the calculation of the *early warning reserve* shall be reduced accordingly.

For the purposes of determining the capital requirement detailed in paragraph (I) above, the term “setoff risk” shall mean the risk exposure that results from the situation where the *Dealer Member* has other transactions, balances or positions with the entity, where the resultant obligations of the *Dealer Member* might be setoff against the value of the securities held in custody with the entity.

(ii) Client Waiver

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the *Dealer Member* is unable to arrange for the holding of client securities in the jurisdiction at an *acceptable securities location*, the *Dealer Member* may hold such securities at a location in that jurisdiction if

- (a) the *Dealer Member* has entered into a written custodial agreement with the location as required hereunder and
- (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the *Dealer Member*, in a form approved by the *Corporation*. Such a consent and waiver must be obtained on a transaction by transaction basis.

(710) Line 22 – Cash not segregated in trust

Where the *Dealer Member* is a *Mutual Fund Dealer Member* that does not use client free credit cash balances within their operations and the *Dealer Member* does not segregate client cash into a trust account within one business day following determination of the deficiency, the amount of the deficiency must be reported on this line as a capital charge.

Where the *Dealer Member* is a *Mutual Fund Dealer Member* that uses client free credit cash balances within their operations or an *Investment Dealer Member* and the *Dealer Member* does not segregate free credits as required on Statement F within one business day following determination of a free credit segregation deficiency, the amount of the deficiency required to be segregated must be reported on this line as a capital charge.

(11) Line 2224 – Unresolved Differences

Items are considered unresolved unless:

- (i) a written acknowledgement from the counterparty of a valid claim has been received
- (ii) a journal entry to resolve the difference has been processed as of the due date of Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of Form 1.

Provision should be made for the *market value* and margin requirements at the Form 1 date on out-of-balance short securities and other adverse unresolved differences (such as, with banks, trust [companies](#), [mutual fund](#) companies, brokers, clearing corporations) still unresolved as at a date one month subsequent to the Form 1 date or other applicable due date of Form 1.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the *Corporation*, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

Type of unresolved difference	Amount required to margin
Money balance - credit (potential gains)	None
Money balance - debit (potential losses)	Money balance

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

Type of unresolved difference	Amount required to margin
Unresolved long with money on the <i>Dealer Member's</i> book	Money balance on the trade minus <i>market value</i> of the security ¹ plus the applicable inventory margin
Unresolved long without money on the <i>Dealer Member's</i> books	None

Unresolved short with money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security minus money balance on the trade ² plus the applicable inventory margin
Unresolved long/short on the other broker's books	None
Short security break (e.g. mutual funds, stock dividends) or Unresolved short without money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security plus the applicable inventory margin

If an adverse unresolved difference (deficiency) in a nominee name mutual fund position has not been resolved within thirty days of being discovered, the Dealer Member shall immediately purchase the securities that are short.

Where nominee name mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

(812) Statement B Supplemental

- (i) Unresolved differences in accounts:

Report all differences determined on or before the report date that have not been resolved as of the due date.

Month end

Month end plus 20 business days

(Report date)

(Due date)

Include differences determined on or before the report date that have not been resolved as of the due date.

_____→

Do not include differences as of the report date that have been resolved on or before the due date.

_____→

For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The debit/short value column includes money differences and *market value* of security differences, which represent a potential loss. The credit/long value column includes money differences and *market value* of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position *market value* of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliations must be properly documented and made available for review by the *Corporation's* examination staff and the *Dealer Member's* auditor.

¹ Money balance on the trade minus *market value* of the security is also referred to as the mark-to-market adjustment.

² *Market value* of the security minus money balance on the trade is also referred to as the mark-to-market adjustment.

Form 1, Part 1 – Statement B
Notes and instructions (Continued)

- (ii) Unresolved differences in security counts:

Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the *market value* of short security differences plus the applicable inventory margin.

(913) Line 2325 – Other

This item should include all margin requirements not mentioned above as outlined in the *Corporation requirements*.

Form 1, Part I – Statement C

Dealer Member's name _____

Statement of early warning excess and early warning reserve

at _____

	Reference	Notes	C\$000's	Current year C\$000's
1. <i>Risk adjusted capital</i>	B- ~~29~~ <u>31</u>			
Liquidity items				
2. Deduct: Other allowable assets	A- ~~18~~ <u>19</u>	_____		
3. Deduct: Tax recoveries	Sch. ~~68~~ <u>A</u>	_____		
4. Deduct: Securities held at non-acceptable securities locations		_____		
5. Add: Non-current liabilities	A- ~~67~~ <u>70</u>	_____		
6. Less: Subordinated loans	A- ~~66~~ <u>69</u>	_____		
7. Less: Finance leases and lease-related liabilities	A- ~~64~~ <u>67</u>	_____		
<u>7b.</u> Less: Portion of non-current liabilities phased in	<u>B-3b</u>	_____		
8. Adjusted non-current liabilities for early warning purposes [Line 5 less Lines <u>6</u> , <u>7</u> and <u>7b</u>]				
9. Add: Tax recoveries - income accruals	Sch. ~~68~~ <u>A</u>	_____		
<u>10.</u> <u>Add: Lesser of:</u>		_____		
(a) <u>Other allowable assets with provider of capital that resulted in capital charge reported on Line 10 (b) below</u>		_____		
(b) <u>Provider of capital concentration charge</u>	<u>Sch.14</u>	_____		
~~10.~~ Early warning excess				
<u>11.</u> [Line 1 less Lines 2 through 4 plus lines 8 ~~and through 9~~ <u>10</u>]				
~~11.~~ Deduct: Capital cushion - Total margin required	B- ~~24~~ <u>26</u>			
<u>12.</u> \$_____ multiplied by 5%		_____		
~~12.~~ Early warning reserve [Line ~~10~~ <u>11</u> less Line ~~11~~ <u>12</u>]				
<u>13.</u>				

Form 1, Part I – Statement C

Notes and instructions

- (1) The early warning system is designed to provide advance warning of a *Dealer Member* encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage *Dealer Members* to build a capital cushion.
- ~~(2) — Line 1 – If risk-adjusted capital (RAC) of the Dealer Member is less than:~~
- ~~(i) — 5% of total margin required (Line 11), then the Dealer Member is designated as being in early warning category Level 1, or~~
- ~~(ii) — 2% of total margin required (Line 11), then the Dealer Member is designated as being in early warning category Level 2,~~
- ~~and the applicable sanctions outlined in the Corporation requirements will apply.~~
- (2) ~~(3)~~ **Lines 2 and 3** - These items are deducted from RAC because they are illiquid or the receipt is either out of the *Dealer Member's* control or contingent.
- (4) **Line 4** - Pursuant to the notes and instructions for the completion of Statement B, Line 2021, where the entity would otherwise qualify as an *acceptable securities location* except for the fact that the *Dealer Member* has not entered into a written custodial agreement with the entity, as required by the *Corporation requirements*, the *Dealer Member* will be required to deduct an amount up to 10% of the *market value* of the securities held in custody with the entity, in the calculation of its *early warning reserve*. Refer to the detailed calculation formula set out to the notes and instructions for the completion of Statement B, Line 2021 to determine the capital requirement to be reported on Statement C, Line 4.
- (5) **Lines 5, 6, 7 and to 8** - Non-current liabilities (other than subordinated loans, and non-current portion of finance leases and lease-related liabilities) are added back to RAC as they are not current obligations of the *Dealer Member* and can be used as financing. The non-current liabilities are adjusted for the portion which has already been added back to RAC on Statement B by Mutual Fund Dealer Members using the phased approach.
- (6) **Line 9** - This add-back ensures that the *Dealer Member* is not penalized at the early warning level for accruing income.
- ~~(7) — Line 10 – If early warning excess is negative, the Dealer Member is designated as being in early warning category Level 2 and the sanctions outlined in the Corporation requirements will apply.~~
- ~~(8) — Line 12 – If the early warning reserve is negative, the Dealer Member is designated as being in early warning category Level 1 and the sanctions outlined in the Corporation requirements will apply.~~ 6) — Line 10 – This add-back ensures that the Dealer Member is not penalized twice for other allowable assets that result in a provider of capital charge. The provider of capital concentration charge reported on line 10 (b) should be net of the transitional phase in adjustment on line 19b of Statement B.

Form 1, Part I – Statement **ED**

Dealer Member's name _____

Statement of income and comprehensive income

for the period ended _____

			Current year / month C\$000's	Previous year / month C\$000's
	Reference	Notes		
Commission ~~Revenue~~ <u>revenue</u>				
1.		Listed ~~Canadian~~ securities		
2.		~~Other securities~~		
3.2.		Mutual funds		
3.		<u>Segregated funds</u>		
4.		<u>Deposit instruments</u>		
4.		~~Listed Canadian options~~		
5.		~~Other listed~~ <u>Listed</u> options		
6.		~~Listed Canadian futures~~ <u>Futures</u> contracts		
7.		~~Other futures contracts~~		
8.7.		Over-the-counter <i>derivatives</i>		
8.		<u>Other investment products</u>		
Principal revenue <u>(realized/unrealized gains (losses))</u>				
9.		<u>Listed securities</u>		
10.		<u>Over-the-counter debt securities</u>		
11.		<u>Money market</u>		
9.12.		Listed ~~Canadian~~ options and related underlying securities		
10.		~~Other equities and options~~		
11.		~~Debt~~		
12.		~~Money market~~		
13.		Futures contracts		
14.		Over-the-counter <i>derivatives</i>		
15.		<u>Other investment products</u>		
Corporate finance revenue				
15.16.		New issues – equity		
16.17.		New issues – debt		
17.18.		Corporate advisory fees		
Other revenue				
18.19.		Interest		
19.20.		Fees <u>from clients</u>		
21.		<u>Referral fees</u>		
22.		<u>Other fees</u>		
23.		<u>Foreign exchange gains/losses</u>		

Form 1, Part I – Statement ED (Continued)

~~20-24.~~ Other [provide details]

~~21-25.~~ Total revenue

Expenses

~~22-26.~~ Variable compensation

~~23-27.~~ Commissions and fees paid to third parties

~~24-28.~~ Bad debt expense

~~25-29.~~ Interest expense on *subordinated debt*

~~26-30.~~ Financing cost

~~27-31.~~ Corporate finance cost

~~28-32.~~ Unusual items [provide details]

~~29-33.~~ Pre-tax profit (loss) for the period from discontinued operations

~~30-34.~~ Operating expenses

~~31-35.~~ **Profit (loss) for early warning test**

~~32-36.~~ Income – Asset revaluation

~~33-37.~~ Expense – Asset revaluation

~~34-38.~~ Interest expense on internal *subordinated debt*

~~35-39.~~ Bonuses

~~36-40.~~ **Net income (loss) before income tax**

~~37-41.~~ Income tax expense (recovery), including taxes on S-6(~~58~~(5)) profit (loss) from discontinued operations

~~38-42.~~ Profit (loss) for period

~~F-11~~F-11

Other comprehensive income

~~39-43.~~ Gain (loss) arising on revaluation of properties

~~F-5a~~F-5a

~~40-44.~~ Actuarial gain (loss) on defined benefit pension plans

~~F-5b~~F-5b

~~41-45.~~ Other comprehensive income for the period, net of tax [Lines ~~39-43~~ plus ~~40-44~~]

~~42-46.~~ Total comprehensive income for the period [Lines ~~38-42~~ plus ~~41-45~~]

The following lines must also be completed when filing the MFR:

~~43-47.~~ Payment of dividends or partner's drawings

~~44-48.~~ Other [provide details]

~~45-49.~~ Net change to retained earnings (or undivided profits or fund balances)
[Sum of Lines ~~38-42~~, ~~43-47~~ and ~~44-48~~]

Form 1, Part I – Statement ED
Notes and instructions

~~(1)~~ _____

(1) Comprehensive income

Comprehensive income represents all changes in equity during a period resulting from transactions and other events, other than changes resulting from transactions with owners in their capacity as owners. Comprehensive income includes profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, two acceptable sources of other comprehensive income (OCI) are:

- ~~(i)~~ (i) the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and
- ~~(ii)~~ (ii) the actuarial gain (loss) on defined benefit pension plans.

~~(2)~~ **(2) Line 1 – Include 1-8 – Report** all gross ~~commissions earned on listed Canadian securities~~ commission revenue on the appropriate lines. Commissions earned on soft dollar deals with respect to the revenue source should also be included in the appropriate Lines 1 to 8. Commission paid to registered representatives must be reported on Line ~~22~~ 26 (Expenses: variable compensation). Payouts to other brokers, mutual funds and segregated funds etc., must be reported on Line ~~23~~ 27 (Expenses: commissions and fees paid to third parties).

~~(3)~~

(3) Line 1 – Include all gross commissions earned on listed Canadian and foreign securities (including exchange-traded funds).

(4) Line 2 – Include all gross commissions and trailer fees earned on ~~over-the-counter~~ mutual fund transactions (~~equity or debt, foreign or Canadian~~), ~~rights and offers, and other foreign securities~~ excluding exchange-traded funds which are reported on Line 1.

~~Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).~~

~~(4)~~

(5) Line 3 – Include all gross commissions and trailer fees earned on ~~mutual~~ segregated fund transactions.

~~Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to the mutual funds must be reported on Line 23 (Expenses: commissions and fees paid to third parties).~~

~~(5)~~

(6) Line 4 – Include all gross commissions earned on ~~listed option contracts cleared through the Canadian Derivatives Clearing Corporation (CDCC).~~

~~Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).~~

~~(6)~~ **Line 5 – Include gross commissions on foreign listed** ~~option~~ deposit instrument transactions.

~~Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).~~

(7) Line 65 – Include all gross commissions earned on listed ~~futures~~ option contracts cleared through the Canadian Derivatives Clearing Corporation (CDCC).

~~Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation) and foreign listed option transactions.~~

(8) Line 76 – Include all gross commissions earned on ~~foreign~~ listed futures contracts.

~~Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation) cleared through the CDCC and foreign listed futures contracts.~~

(9) Line 87 – Include gross commissions earned on over-the-counter options, forwards, contracts-for-difference, FX spot, and swaps.

~~Commission paid to registered representatives~~

(10) Line 8 – Include gross commissions earned on transactions in any other investment products not included in Lines 1-7.

(11) Lines 9-15 – Report all principal revenue (realized/unrealized gains and losses) on the appropriate lines. Include any adjustment of inventories to market value. The financing costs must be reported separately on Line ~~22~~ 30 (Expenses: variable compensation).

Form 1, Part I – Statement ED
Notes and instructions (Continued)

~~(10)~~ financing cost).

~~(12)~~ Line 9 - Include all principal revenue (~~trading profits/losses~~, including dividends) from listed ~~options cleared through CDCC and related underlying security transactions in market makers' and Dealer Member's inventory accounts~~.

~~Include adjustment of inventories to market value.~~

~~The financing cost must be reported separately on Line 26 (Expenses: financing cost).~~

~~(11)~~ Line 10 - Include all principal revenue (~~trading profits/losses~~, including dividends) from all other ~~options and equities~~ Canadian and foreign securities except those indicated on Line 912 (~~Principal revenue: listed Canadian~~ Listed options and related underlying securities).

~~Include adjustment of inventories to market value.~~

~~The financing cost must be reported separately on Line 26 (Expenses: financing cost).~~

~~(12)~~

~~(13)~~ Line 1110 - Include revenue (~~trading profits/losses~~) on all debt instruments, other than money market instruments.

~~Include adjustment of inventories to market value.~~

~~The financing cost must be reported separately on Line 26 (Expenses: financing cost).~~

~~(1314)~~ Line 1211 - Include revenue on all money market activities. Money market commissions should also be shown here.

~~Include any adjustment of inventories to market value.~~

~~The cost of carry must be reported separately on Line 26 (Expenses: financing cost).~~

~~(15)~~ Line 12 - Include all principal revenue (including dividends) from listed options cleared through CDCC and foreign listed option transactions, as well as related underlying security transactions in market makers' and Dealer Member's inventory accounts.

~~(1416)~~ Line 13 - Include all principal revenue (~~trading profits/losses~~) on futures contracts.

~~(1517)~~ Line 14 - Include ~~revenues~~ all principal revenue from over-the-counter derivatives, such as forward contracts and swaps.

~~Include adjustment of inventories to market value~~

~~(18)~~ Line 15 - Include all principal revenue from other investment products not included on Lines 9-14.

~~(1619)~~ Line 1516 - Include revenue relating to equity new issue business - underwriting and/or management fees, banking group profits, private placement fees, trading profits on new issue inventories (trading on an "if, as and when basis"), selling group spreads and/or commissions, and convertible debts.

Syndicate expenses must be reported separately on Line 2731 (Expenses: corporate finance cost).

~~(1720)~~ Line 1617 - Include revenue relating to debt new issue business - Corporate and government issues, and Canada Savings Bond (CSB) commissions.

Amounts paid to CSB sub-agent fees and for syndicate expenses must be reported separately on Line 2731 (Expenses: corporate finance cost).

~~(1821)~~ Line 1718 - Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees.

The related expenses must be reported separately on Line 2731 (Expenses: corporate finance cost).

~~(1922)~~ Line 1819 - Include all interest revenue, which is not otherwise related to a specific liability trading activity (i.e. other than debt, money market, and derivatives).

All interest revenue from carrying retail and institutional client account balances should be reported on this line. For example, interest revenue earned from client debit balances.

The related interest cost for carrying retail and institutional client accounts should be reported separately on Line 2630 (Expenses: financing cost).

~~(2023)~~ Line 1920 - Include proxy fees, portfolio service fees, segregation and safekeeping fees, RRSP fees, and any charges to clients that are not related to commission or interest.

~~(2124)~~ Line 21 - Include all fees earned as a result of referring clients to another entity for products or services.

Form 1, Part I – Statement ED
Notes and instructions (Continued)

(25) Line 22 - Include management fees, consulting fees and other fees charged to parties other than clients.

(26) Line 2023 - Include gains/losses from foreign exchange ~~profits/losses and~~ transactions.

(27) Line 24 - Include all other revenue not reported in lines above.

(2228) Line 2226 - Include commissions, bonuses and other variable compensation of a contractual nature.

Examples would encompass commission payouts to *registered representatives* and payments to institutional and professional trading personnel.

All contractual bonuses should be accrued monthly.

Discretionary bonuses should be reported separately on Line 3539 (Expenses: bonuses).

(2329) Line 2327 - Include payouts to other brokers and mutual funds.

(2430) Line 2529 - Include all interest on external *subordinated debt*, as well as non-discretionary contractual interest on internal *subordinated debt*.

(2531) Line 2630 - Include the financing cost for all inventory trading (related to Lines 9, 10, 11 and 129-15) and the cost of carrying client balances (related to Line 1819).

(2632) Line 2731 - Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.

(2733) Line 2832 - Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.

Discontinued operations, such as a branch closure, should be reported separately on Line 2933 (Expenses: Pre-tax profit/loss for the period from discontinued operations).

(2834) Line 2933 - A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, branch closure. The profit/loss on discontinued operations for the period is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recovery) on Line 3741.

(2935) Line 3034 - Include all operating expenses (including those related to soft dollar deals).

Over-certification cost relating to debt instruments should be reported on this line.

Transaction cost for inventory trading (specifically for inventory that are categorized as held-for-trading) should be included on this line.

The expense related to share-based payments (such as stock option or share reward) to *employees* and non-*employees* should be included on this line.

(3036) Line 3135 - This is the profit/loss number used for the early warning profitability tests.

(3137) Line 3236 - When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.

(3238) Line 3337 - When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.

(3339) Line 3438 - Include interest expense on *subordinated debt* with related parties for which the interest charges can be waived if required.

(3440) Line 3539 - This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. These bonuses are in contrast to those reported on Line 2226 (Expenses: variable compensation).

(3541) Line 3741 - Include only income taxes and the tax component relating to the profit/loss on discontinued operations for the period.

Realty and capital taxes should be included on Line 3034 (Expenses: operating expenses).

(3642) Line 42 - For a Dealer Member that is structured as a not-for-profit organization, the profit (loss) for the period reported on this line represents the excess of the revenue over the expenses.

(43) Line 3943 - When a *Dealer Member* uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income

Form 1, Part I – Statement ED
Notes and instructions (Continued)

or expense from asset revaluation.

(~~37~~44) **Line ~~40~~44** - When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.

(~~38~~45) **Line ~~41~~45** - For MFR reporting, other comprehensive income for the period on Line ~~41~~45 is the net change to reserves on Statement A Line ~~70~~73.

(~~39~~46) **Line ~~43~~48** - To be used for ~~MFR~~monthly financial report filing only.

(~~40~~47) **Line ~~44~~49** - To be used for ~~MFR~~monthly financial report filing only: Include direct charges or credits to retained earnings. Any adjustment required to reconcile the MFR's retained earnings to the audited Form 1 retained earnings must be posted to the individual Statement ED line items on the first MFR that is filed after the adjustment is known.

Form 1, Part I – Statement **FE**

Dealer Member's name _____

Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) or fund balances (not-for-profits)

for the year ended _____

A. Changes in issued capital

		Share capital or partnership capital [a]	Share premium [b]	Issued capital [c] = [a] + [b]
	Notes	C\$000's	C\$000's	C\$000's
1. Beginning balance	-----	-----	-----	-----
2. Increases (decreases) during the period [provide details]				
(a)	-----	-----	-----	-----
(b)	-----	-----	-----	-----
(c)	-----	-----	-----	-----
3. Ending balance		=====	=====	=====
				<u>A-72</u>
				A-69

B. Changes in reserves

		General [a]	Properties revaluation [b]	Employee benefits [c]	Employee defined benefit pension [d]	Total reserves [e] = [a] + [b] + [c] + [d]
	Notes	C\$000's	C\$000's	C\$000's	C\$000's	C\$000's
4. Beginning balance	-----	-----	-----	-----	-----	-----
5. Changes during the period						
(a) Other comprehensive income for the year – properties revaluation	-----	-----	<u>E-39D-43</u>	-----	-----	-----
(b) Other comprehensive income for the year – actuarial gain (loss) on defined benefit pension plans	-----	-----	-----	-----	<u>E-40D-44</u>	-----
(c) Recognition of share- based payments	-----	-----	-----	<u>E-30D-34</u>	-----	-----
(d) Transfer from/to retained earnings	-----	<u>F-12E-12</u>	-----	-----	-----	-----

See notes and instructions

Janxxx-2023xxxx

Form 1, Part I – Statement ~~FE~~ (Continued)

B. Changes in reserves

(e) Other [provide details]	_____	_____	_____	_____	_____	_____
6. Ending balance	_____	=====	=====	=====	=====	=====
						~~A-70~~ <u>A-73</u>

C. Changes in retained earnings [or undivided profits or fund balances]

		<u>Operating fund (for NFP only) [a] C\$000's</u>	<u>Internally restricted fund (for NFP only) [b] C\$000's</u>	<u>Externally restricted fund (for NFP only) [c] C\$000's</u>	<u>Retained earnings [undivided profits or fund balances] (Current year) [d] C\$000's</u>	<u>Retained earnings [undivided profits or fund balances] (Previous year) C\$000's</u>
	<u>Notes</u>					
7. Beginning balance	_____	_____	_____	_____	_____	_____
8. Effect of change in accounting policy [provide details]						
(a)	_____	N/A	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	_____
(b)	_____	N/A	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	_____
9. As restated	_____	N/A	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	_____
10. Payment of dividends or partners drawings	_____	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	_____	_____
11. Profit or loss <u>(excess of revenue over expenses)</u> for the year	_____	_____	_____	_____	_____	_____
					~~E-38~~ <u>D-42</u>	
12. Other direct charges or credits to retained earnings <u>(or undivided profits or fund balances)</u> [provide details]						
(a)	_____	_____	_____	_____	_____	_____
(b)	_____	_____	_____	_____	_____	_____
(c)	_____	_____	_____	_____	_____	_____
13. Ending balance		=====	=====	=====	=====	=====
					~~A-71~~ <u>A-74</u>	

Form 1, Part I – Statement ~~FE~~
Notes and instructions

(1) Section A – Changes in issued capital

(i) Change in share or partnership capital

~~Depending on the circumstances, a~~ A *Dealer Member* must ~~either formally notify or~~ obtain prior approval from the Corporation for ~~any change~~ significant changes in any class of common and preferred share or partnership capital in accordance with section 2107.

(ii) Share premium

When the *Dealer Member* sells its shares (initial issuance or from treasury), share premium is the excess amount received by the *Dealer Member* over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

(2) Section B – Changes in reserves

(i) General reserve

General reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. Appropriation directly from the income statement is not permitted for general reserves.

(ii) Reserve – employee benefits

When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a *Dealer Member* has stock option or share award granted to its *employees* by issuing new shares, the *Dealer Member* recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in a reserve account.

(iii) Reserve – properties revaluation

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a *Dealer Member* will account the initial increase in value as other comprehensive income (OCI) and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

(3) Section C – Changes in retained earnings or undivided profits or fund balances

(i) Change in accounting policy and retroactive adjustment of prior year's retained earnings

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings. The beginning balance of the current year must be the ending balance of the prior year.

(ii) Fund balances

A *Dealer Member* structured as a not-for-profit organization must complete the columns for fund balances ([a], [b] and [c]) to show the changes in the fund balances. These columns are not applicable for a *Dealer Member* structured as a corporation or partnership. The total of the fund balances ([a]+[b]+[c]) must be reported in column [d] as the current total change in fund balances.

(iii) Retained earnings or undivided profits

A *Dealer Member* structured as a corporation or partnership must report their balances related to the current year change in retained earnings in column [d]. The summation of the fund balances ([a]+[b]+[c]) is only applicable to a *Dealer Member* structured as a not-for-profit organization.

Form 1, Part I – Statement **DF**Investment Dealer Member's nameStatement of free credit segregation amount – Investment Dealer Members

at _____

	Reference	Notes	Current year C\$000's
A. Amount required to segregate based on general free credit limit			
General client free credit limit			
1. Early warning reserve of \$ _____ multiplied by 12 [Report NIL if amount is negative]	C-1213		_____
Less client free credit balances:			
2. Dealer Member's own	Sch.4	_____	_____
3. Carried for Type 3 Introducers		_____	_____
4. Total client free credit balances [Section A, Line 2 plus Section A, Line 3]		_____	_____
5. Amount required to segregate based on general client free credit limit [Section A, Line 4 minus Section A, Line 1; report NIL if result is negative]		_____	_____
B. Amount required to segregate based on margin lending adjusted client free credit limit			
Client free credit limit for margin lending purposes			
1. Early warning reserve of \$ _____ multiplied by 20 [Report NIL if amount is negative]	C-1213		_____
Less client free credit balances used to finance client margin loans:			
2. Total settlement date client margin debit balances		_____	_____
3. Total client free credit balances [Include amount from Section A, Line 4 above]		_____	_____
4. Subtotal - Client free credit balances used to finance client margin loans [Lesser of Section B, Line 2 and Section B, Line 3]		_____	_____
5. Amount required to segregate relating to margin lending [Section B, Line 4 minus Section B, Line 1; report NIL if result is negative]		_____	_____
Free credit limit for all other purposes			
6. Early warning reserve [Report NIL if amount is negative]	C-1213	_____	_____
7. Total settlement date client margin debit balances divided by 20		_____	_____
8. Portion of early warning reserve available to support all other uses of client free credits [Section B, Line 6 minus Section B, Line 7; report NIL if result is negative]		_____	_____
9. Client free credit limit for all other purposes [Section B, Line 8 multiplied by 12]		_____	_____
10. Client free credits not used to finance margin loans [Section A, Line 4 minus Section B, Line 4]		_____	_____
11. Amount required to segregate relating to all other purposes [Section B, Line 10 minus Section B, Line 9; report NIL if result is negative]		_____	_____
12. Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 5 plus Section B, Line 11]		_____	_____
C. Amount required to segregate			
1. Amount required to segregate based on general client free credit limit [Section A, Line 5]		_____	_____
2. Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12]		_____	_____
3. Amount required to segregate [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1]		_____	_____

Form 1, Part I – Statement **DF** (Continued)

D. Amount in segregation

1.	Client funds held in trust in an account with an <i>acceptable institution</i>	A-3	_____	_____
2.	<i>Market value</i> of securities owned and in <i>segregation</i>	Sch.2	_____	_____
3.	Amount in <i>segregation</i> [Section D, Line 1 plus Section D, Line 2]		_____	_____
4.	Net <i>segregation</i> excess (deficiency) [Section D, Line 3 minus Section C, Line 3]	<u>B-22</u>	_____	_____

**Form 1, Part I – Statement ~~DE~~
Notes and instructions**

- (1) The client free credit limit and *segregation* requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests. Investment Dealer Members must report their free credit segregation amount on this statement. If a Mutual Fund Dealer Member chooses to use client free credit balances in its operations under subsection 4382(2), the Mutual Fund Dealer Member must report their free credit segregation amount on this statement in accordance with the same requirements as Investment Dealer Members.
- (2) **Section A, Lines 2 and 3** - Free credit balances in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*.

In CIRO Bulletin 24-0067, we propose to add the following additional note under Note (2) into IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

Where the *Dealer Member* has borrowed the client's fully paid or excess margin securities and cash collateral is provided to the client by the *Dealer Member*, the cash collateral should not be included in *free credit balances*.

For purposes of this statement, a free credit is:

- (a.i) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.
- (b.ii) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.
- (3) **Section A, Line 5** - If nil, no further calculation on this Statement need be done.
- (4) **Section B, Line 2** - Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.
- (5) **Section D, Line 1** - The cash must be segregated in trust for clients in a separate account or accounts with a Canadian financial institution qualifying as an acceptable institution and this trust property must be clearly identified as such at the *acceptable institution*.
- This calculation should exclude funds held in trust for RRSP and other similar accounts.
- (6) **Section D, Line 2** - The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the Investment Dealer Member's property:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other	AAA	Foreign government of a <i>Basel Accord</i> country

Form 1, Part I – Statement ~~DF~~
Notes and instructions (Continued)

	national foreign government not identified in category 1		
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> Securities issued by a <i>provider of capital</i>, as defined in the notes and instructions to Schedule 14 are not eligible

- (7) **Section D, Line 4** – If negative, then a *segregation* deficiency exists, and the Investment Dealer Member must correct the *segregation* deficiency within 51 business ~~days~~ day following the determination of the deficiency. Where the deficiency exists for more than one business day, it must be provided out of the Investment Dealer Member's capital. The Investment Dealer Member must provide an explanation of how the deficiency was corrected and the date of correction.

Form 1, Part I - Notes

Dealer Member's name

Notes to the Form 1 financial statements

at _____

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance and segregation of cash and investment products – Mutual Fund Dealer Members

To: <Dealer Member>

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of providing <Dealer Member> (Dealer Member) with information to assist the <name of Self-Regulatory Organization> and the <name of Investor Protection Fund> in their assessment of the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance and segregation of client cash and investment products as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

Responsibilities of the engaging party

The Dealer Member, <name of Self-Regulatory Organization> and <name of Investor Protection Fund> have acknowledged that the agreed-upon procedures, as required by <name of Self-Regulatory Organization>, are appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's responsibilities

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

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

Professional ethics and quality management

[Free form text]

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

Our firm applies Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

We have performed the procedures described below, which were agreed upon with the Dealer Member with respect to the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance and segregation of client cash and investment products as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below.

Form 1, Part II (Continued)

#	<u>Procedures</u>	<u>Findings [State the results of the procedures performed]</u>
(1)	<u>Obtain the written internal control policies and procedures of the Dealer Member, from management of the Dealer Member, and inspect whether they include internal controls regarding:</u> <u>(i) maintaining insurance coverage as required in Part C of Dealer and Consolidated Rule 4400, and</u> <u>(ii) segregation of client cash and investment products as required in Part A and Part C of Dealer and Consolidated Rule 4300.</u>	
(2)	<u>Obtain written representation from management of the Dealer Member that “the Dealer Member’s internal control policies and procedures regarding insurance and segregation of client cash and investment products meet the minimum requirements in Part A and C of Dealer and Consolidated Rule 4300 and Part C of Dealer and Consolidated Rule 4400 as at <period end date> and have been implemented.” The name and title of those of management who provided the written representation are to be reported in the findings.</u>	
(3)	<u>Obtain the financial institution bond insurance policy (FIB) as at <period end date>, from management of the Dealer Member, and inspect whether the FIB:</u> <u>(i) clauses exist as per section 4456 of the Dealer and Consolidated Rules for:</u> <u>(a) Fidelity</u> <u>(b) On premises</u> <u>(c) In transit</u> <u>(d) Forgery or alteration</u> <u>(e) Securities</u> <u>(ii) includes the minimum coverage limits as per section 4457 or 4458 of the Dealer and Consolidated Rules.</u>	
(4)	<u>From a listing of all Dealer Member insurance brokers as at <period end date>, provided by management of the Dealer Member, confirm items (a) to (j) below for each insurance broker and report differences from details reported in the FIB and Form 1:</u> <u>(a) Insurance company name</u> <u>(b) Name of insured</u> <u>(c) FIB/registered mail</u> <u>(d) Expiry date</u> <u>(e) Coverage</u> <u>(f) Type of aggregate limit</u> <u>(g) Provision for full reinstatement</u> <u>(h) Premium</u> <u>(i) Deductible</u> <u>(j) Losses and claims</u>	
(5)	<u>From the report of total client net equity held as at <period end date>, provided by management of the Dealer Member. Agree the total client net equity held by the Dealer Member as at <period end date> to Schedule 12 of Form 1.</u>	
(6)	<u>From a listing of all segregation locations as at <period end date>, provided by management of the Dealer Member, inspect that each segregation location</u>	

Form 1, Part II (Continued)

	<u>meets the definition of “acceptable securities locations” as defined in the general notes and definitions to Form 1.</u>	
<u>(7)</u>	<u>From a listing of all cash segregation locations as at <period end date> ,</u> <u>provided by management of the Member:</u> <u>(i) inspect that each cash segregation location meets the definition of</u> <u>“acceptable institutions” as defined in the general notes and</u> <u>definitions of Form 1; and</u> <u>(ii) for each account:</u> <u>(a) inspect that the account was designated as “in trust”; and</u> <u>(b) inspect that the account was interest bearing.</u>	

[Optional: Restriction on Use]

[Free form text]

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

Auditing firm

Date

Signature

Place of issue

[Optional: Additional information]

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance, segregation of ~~securities~~investment products, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members

To: <Dealer Member>

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of providing <Dealer Member> (Dealer Member) with information to assist the <name of Self-Regulatory Organization> and the <name of Investor Protection Fund> in their assessment of the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance, segregation of client ~~securities~~investment products, and maintaining guarantee/guarantor relationships for margin relief as outlined in the ~~Corporation Investment~~-Dealer and ~~Partially~~ Consolidated Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

Responsibilities of the engaging party

The Dealer Member, <name of Self-Regulatory Organization> and <name of Investor Protection Fund> have acknowledged that the agreed-upon procedures, as required by <name of Self-Regulatory Organization>, are appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's responsibilities

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

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

Professional ethics and quality management

[Free form text]

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

Our firm applies Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and findings

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

Form 1, Part II (Continued)

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

Form 1, Part II (Continued)

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

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

Form 1, Part II (Continued)

	inspect that the stock message on the customer account statement appropriately indicates whether that the ~~security~~<u>investment product</u> position was held in segregation. Select 10 segregated ~~securities~~<u>investment products</u> from customer account statements as at ____<period end date>____, provided by management of the Dealer Member, and trace each segregated ~~security~~<u>investment product</u> to the SRP as at ____<period end date>____ and to the Segregation Report as at ____<period end date>____, provided by management of the Dealer Member to inspect that the ~~security~~<u>investment product</u> position was held in segregation.	
(12)	Obtain a list of guarantee relationships, provided by management of the Dealer Member. From the listing obtained, select 10 guarantee relationships used by the Dealer Member to reduce the margin required during the period reported on the Form 1, for monthly financial reporting purposes. For each of the 10 guarantee relationships: (i) Obtain written confirmation of the guarantee relationship from the guarantor of the account(s) guaranteed and that the guarantee was in place as at ____<period end date>____. (ii) Compare the wording of the guarantee agreements to the requirements in section 5825 of the ~~Corporation Investment~~-Dealer and ~~Partially~~ Consolidated Rules.	

[Optional: Restriction on Use]

[Free form text]

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

Auditing firm

Date

Signature

Place of issue

[Optional: Additional information]

Form 1, Part II – Schedule 1

Dealer Member's name

Date

Analysis of loans receivable, securities borrowed and resale agreements

	Amount of loan receivable or cash delivered as collateral	Market value of securities delivered as collateral	Market value of securities received as collateral or borrowed	Required to margin
	C\$000's [see note 3]	C\$000's [see note 4]	C\$000's [see note 4]	C\$000's
Loan receivable				
1. <i>Acceptable institutions</i>		N/A		Nil
2. <i>Acceptable counterparties</i>		N/A		
3. <i>Regulated entities</i>		N/A		
4. Others [see note 15]		N/A		
Securities borrowed				
5. <i>Acceptable institutions</i>				Nil
6. <i>Acceptable counterparties</i>				
7. <i>Regulated entities</i>				
8. Others [see note 15]				
Resale agreements				
9. <i>Acceptable institutions</i>		N/A		Nil
10. <i>Acceptable counterparties</i>		N/A		
11. <i>Regulated entities</i>		N/A		
12. Others [see note 15]		N/A		
13. Total [Sum of lines 1 through 12]				
	A-6			B-910

Form 1, Part II – Schedule 1

Notes and instructions

- (1) This schedule is to be completed for secured loan receivable transactions where the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.
- (2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan receivable"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend cash and receive securities as collateral from the counterparty.
"excess collateral deficiency"	(i) For a <i>cash loan receivable</i>, any excess of the amount of the loan over the <i>market value</i> of the actual collateral received from the transaction counterparty, or (ii) For a <i>securities borrow arrangement</i>, any excess of the <i>market value</i> of the actual collateral provided to the transaction counterparty over: (a) 102% of the <i>market value</i> of the securities borrowed, where cash is provided as collateral, or (b) 105% of the <i>market value</i> of the securities borrowed, where securities are provided as collateral.
"securities borrow arrangement"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow securities and deliver cash or securities as collateral to the counterparty.

- (3) Include accrued interest in amount of loan receivable.
- (4) *Market value* of securities delivered or received as collateral should include accrued interest.
- (5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

- (i) set out the rights of each party to retain and realize on securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
- (iv) either:
- (a) give the parties the right to set off their mutual debts, or
- (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (iv)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (iv)(b) above, the written agreement must provide for the securities borrowed, or the securities purchased under a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

In CRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,
- (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and
- (v) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities borrowed in the case of a *securities loan arrangement*, or the securities purchased in the case of a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) Cash loan receivable

(i) Margin requirements

The margin requirements for a *cash loan receivable* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) Securities borrow arrangements

(i) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the third party custodian agent, if:

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Notes and instructions (Continued)

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the agent and the loan collateral will be liquidated and the resulting proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the agent to the *Dealer Member*.

(iii) Agency securities borrow arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the *agency securities borrow arrangement* to the underlying principal lender and the *agency securities borrow arrangement* must be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the underlying principal lender:

- (a) where an agent is also the third party custodian and the requirements in note 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 7(ii) are not all met.

(iv) Margin requirements for securities borrow arrangements

The margin requirements for a *securities borrow arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
- (I) for principal *securities borrow arrangements*, the counterparty is the principal in the *securities borrow arrangement*,
- (II) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
- (III) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 business days of the trade shall be margined.

In CRO Bulletin 24-0067, we propose to add the following clause into note 7 in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

- (c) Where the *Dealer Member* borrows fully paid or excess margin securities from a client pursuant to Part B.2 of 4600, the margin required is equal to the excess of the collateral required under subsection 4624(3) over the *market value* of the actual collateral segregated for the client in compliance with subsection 4624(5).

(8) Securities resale arrangements

(i) Written agreement requirements

If a *Dealer Member* has a written agreement for a securities resale arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreement:
- (I) the cash proceeds from the purchased securities must be held by the third party custodian agent,
- (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

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Notes and instructions (Continued)

- (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.
- (iii) **Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities**
- Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:
- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
 - (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreements:
 - (I) the cash proceeds from the purchased securities must be held by the agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.
- (iv) **Agency securities resale arrangements where agent must not be treated as equivalent to principal**
- The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:
- (a) where an agent is also the third party custodian and the requirements in note 8(ii) are not all met, or
 - (b) where an agent and third party custodian are different entities and the requirements in note 8(iii) are not all met.
- (v) **Margin requirements for securities resale arrangements**

The margin requirements for a securities resale arrangement are as follows:

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in notes 5 and 8(i), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than 30 calendar days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 5 and 8(i), for margin purposes:

- (I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,
- (II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are met, the counterparty is the agent,
- (III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(8) Securities resale arrangements

- (i) **Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the cash proceeds from the purchased securities must be held by the third party custodian agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the cash proceeds from the purchased securities must be held by the agent,
 - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

(iii) Agency securities resale arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

- (a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities resale arrangements

The margin requirements for a securities resale arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than 30 calendar days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,
 - (II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 2, 3, 6 and 7** - In the case of a *cash loan receivable* or a *securities borrow arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 10 and 11** - In the case of a resale transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 4, 8 and 12** - In the case of a *cash loan receivable* or a securities borrowing or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (14) **Lines 5, 6 and 7** - In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
- (15) **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(ii) and (iii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

In CIRO Bulletin 24-0067, we propose to repeal notes 13 to 15 and replace with notes 13 to 16 as follows in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

- (13) **Lines 4, 8 and 12** - In the case of a *cash loan receivable* or a securities borrowing (excluding borrowing arrangements for client fully paid and excess margin securities) or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty*, or *regulated entity* where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the

Form 1, Part II – Schedule 1
Notes and instructions (Continued)

Dealer Member's capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's capital*.

- (14) **Line 8** - In the case of securities borrowing arrangements for client fully paid and excess margin securities where a deficiency exists as calculated under Note 7(iv)(c), action must be taken to correct the deficiency. If no action is taken, the amount of deficiency must be immediately provided out of the *Dealer Member's capital*. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's capital*.
- (15) **Lines 5, 6 and 7** - In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's capital* for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
- (16) **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 2

Dealer Member's name

Date

Analysis of securities owned and sold short at market value

Category	Notes	Market value		Margin required C\$000's
		Long C\$000's	Short C\$000's	
1. Money market				
Accrued interest				Nil
Total money market				
2. Debt				
Accrued interest				Nil
Total debt				
3. Equities				
Accrued interest on convertible debentures				Nil
Total equities				
<u>4.</u> <u>Money market mutual funds</u>			<u>Nil</u>	
<u>Other mutual funds</u>			<u>Nil</u>	
<u>Total mutual funds</u>			<u>Nil</u>	
<u>4.5.</u> Options				
<u>5.6.</u> Futures contracts		Nil	Nil	
<u>6.7.</u> Over-the-counter derivatives				
<u>7.8.</u> Registered traders, specialists and market makers		Nil	Nil	
<u>9.</u> Other				
<u>8.10.</u> Total			<u>A-52A-53</u>	<u>B-10B-11</u>
<u>9.11.</u> Less: Securities, including accrued interest, segregated for client free credit ratio calculation				
		A-8 and D-E-Sec. D-2		
<u>10.12.</u> Adjusted total		<u>A-7</u>		

Supplementary information

11.13. Market value of securities included above but held on deposit as variable base deposits or margin deposits with acceptable clearing corporations or regulated entities or as a comfort deposit with a carrying broker

12.14. Margin reduction from offsets against Trader reserves and PDO guarantees

Form 1, Part II – Schedule 2

Notes and instructions

(1) **Valuation and margin rates**

All securities are to be valued at *market* ~~(see general notes and definitions)~~ *value* as of the reporting date. The margin rates to be used are those outlined in *Corporation requirements*.

(2) **All securities owned and sold short**

Schedule 2 summarizes all securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and total *margin required* as indicated. Where a Dealer Member invests its excess cash in investment product positions, such positions are considered to be inventory positions and must be reported on Schedule 2.

(3) **Margining of option positions**

Where the *Dealer Member* utilizes the computerized options margining program of an *acceptable exchange* operating in Canada, the margin requirement produced by such program may be used provided the positions in the *Dealer Member's* records agree with the positions in the exchange's computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by the exchange's computer-margining program must be provided. For the purposes of this paragraph, an *acceptable exchange* operating in Canada is limited to The Montreal Exchange (MX).

(4) **Request for detailed information**

The examiners of the *Corporation* may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

(5) **Margin offsets**

Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

(6) **Line 1 - Money market** is to include Canadian & US treasury bills, bankers acceptances, bank paper (domestic & foreign), municipal and commercial paper or other similar instruments, except money market mutual funds which should be reported on Line 4.

(7) **Supplementary instructions for reporting money market commitments:**

"Market price" for money market commitments (fixed-term repurchases, calls, etc.) shall be calculated as follows:

- (i) Fixed date repurchases (no borrower call feature) - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (ii) Open repurchases (no borrower call feature) - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (i) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (iii) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration (the dealer has a loss), the margin required is the lesser of:
 - (a) the prescribed rate appropriate to the term of the security, and
 - (b) the spread between holder consideration and dealer consideration (the loss) based on the call features subject to a minimum of 1/4 of 1% margin.

(8) **Line 78 - Registered traders, specialists and market makers margin requirements are:**

- (i) The minimum margin requirement for each Toronto Stock Exchange (TSX) registered trader is \$50,000.
- (ii) The minimum margin requirement for each MX registered specialist is the lesser of \$50,000 or an amount sufficient to

Form 1, Part II – Schedule 2
Notes and instructions (Continued)

assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.

- (iii) The market maker minimum margin requirement is for the TSX \$50,000 for each specialist appointed and for the MX \$10,000 for each security and/or class of options appointed (not to exceed \$25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have an appointment.

The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the *Dealer Member*.

The *market values* related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.

~~(9)~~ (9) **Line 9** – ~~The following~~ **Line 11 – Report** securities ~~are eligible for client~~ the *Dealer Member* has segregated to meet free credit segregation purposes, ~~provided they are segregated and held separate and apart from the *Dealer Member's* property;~~ requirements on Statement F. Eligible securities are described in Statement F notes and instructions.

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating-organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) — national governments of Canada, United Kingdom, and United States; or (ii) — Canadian provincial governments.	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1.	AAA	Foreign government of a <i>Basel Accord</i> country
3.	Canadian bank paper with an original maturity of 1 year or less.	R-1(low), F1, P-1, A-1(low)	No designated rating organization has a lower current credit rating. Must be issued by a Canadian chartered bank. Securities issued by a provider of capital, as defined in notes and instructions to Schedule 14, are not eligible.

~~(10)~~ (10) **Line 1214** – Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the trader permitting the *Dealer Member* to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from *guarantees* relating to inventory accounts by partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees).

Form 1, Part II – Schedule 2A

Dealer Member's name

Date

Margin for concentration in underwriting commitments

Individual concentration

Description [see note 3]	Market value C\$000's	Normal margin C\$000's	40% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 2]	Concentration margin C\$000's
1. Subtotal						

Overall concentration

Description [see note 5]	Market value C\$000's	Normal margin C\$000's	100% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 4]	Concentration margin C\$000's
2. Subtotal						
3. Concentration margin [Sum of lines 1 and 2]						

B-11B-12

Form 1, Part II – Schedule 2A

Notes and instructions

(1) This schedule must be completed for underwriting commitments requiring concentration margin.

(2) Individual commitment concentration

Where the normal margin required on any one commitment is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the normal margin on the commitment exceeds 40% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.

(3) Report details by individual commitments.

(4) Overall commitment concentration

Where the normal margin required on some or all commitments is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the aggregate normal margin on these commitments exceeds 100% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.

(5) It is not necessary to report details of individual commitments. Report the aggregate totals.

Form 1, Part II – Schedule 2B

Dealer Member's name

Date _____

Underwriting issues margined at less than the normal margin rates

		Par value or number of shares			<i>Market value</i>				
		Long	Short		Long	Short	Effective	Margin	
Description	Maturity date	C\$000's	C\$000's	Market price	C\$000's	C\$000's	margin rate %	required C\$000's	Expiry date
Totals									

Notes and instructions:

- (1) The purpose of this schedule is to disclose all unsold portions of new and secondary issues held by underwriters that are margined at less than the normal margin rates applicable to those securities as permitted in the *Corporation requirements*. Expiry date refers to the date of any out clause or the expiry date on a bank letter.
- (2) For positions in this schedule, the margin rate shall give effect to any bank letters or out clauses, and the margin required shall indicate the margin remaining after offsets and/or hedging strategies.

Form 1, Part II – Schedule 3

Mutual Fund Dealer Member's name

Date

Analysis of clients' trading accounts – Mutual Fund Dealer Members

<u>Category</u>	<u>Balances</u>		<u>Margin</u> <u>C\$000's</u>
	<u>Debit</u> <u>C\$000's</u>	<u>Credit</u> <u>C\$000's</u>	
1. <u>Acceptable institutions</u>			
2. <u>Acceptable counterparties</u>			
3. <u>Other clients:</u>			
<u>(a) non-registered cash accounts</u>			
<u>(b) RRSP and other registered cash accounts</u>			
4. <u>Advanced Redemption Proceeds Receivable:</u>			
<u>(a) non-registered accounts</u>		<u>N/A</u>	
<u>(b) RRSP and other registered accounts</u>		<u>N/A</u>	
5. <u>Total</u>			
	<u>A-9</u>	<u>A-54</u>	<u>B-13</u>
6. <u>Supplementary disclosure:</u>			
<u>(a) Name of RRSP trustee(s)</u>			
1. _____			
2. _____			
3. _____			

Form 1, Part II – Schedule 3

Notes and instructions

- (1) This schedule must be completed by a *Mutual Fund Dealer Member* that is not offering margin lending to a client under subsection 5112(2). Although the *Mutual Fund Dealer Member* is not offering margin lending, the *Mutual Fund Dealer Member* may inadvertently extend credit to a client when client payments fail (e.g. NSF cheques). When any portion of the money balance in the account of the client is overdue the *Mutual Fund Dealer Member* must provide margin on this schedule.
- (2) A *Mutual Fund Dealer Member* may choose to calculate the amount of margin as 100% of the client debit balance, instead of applying the different margin methodologies described in Notes 3 to 6. If the *Mutual Fund Dealer Member* applies the equity deficiency calculation in Note 5(i), the *Mutual Fund Dealer Member* must report any concentration exposures on Schedule 11 in accordance with the same requirements as *Investment Dealer Members*.
- (3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* except any transaction which has not been confirmed by an *acceptable institution* within 15 business days of the trade date.
Any transaction which has not been confirmed by an *acceptable institution* within 15 business days of the trade, shall be margined.
- (4) **Line 2** - In the case of a transaction in the account of an *acceptable counterparty*, the amount of margin to be provided, commencing on settlement date, may be calculated as the equity deficiency, which is equal to the difference between (i) the net market value of all settlement date *investment product* positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).
Any transaction which has not been confirmed by an *acceptable counterparty* within 15 business days of the trade, shall be margined.
- (5) **Line 3(a)** - When any portion of the money balance in an account of a client, other than an *acceptable institution* or *acceptable counterparty* or *regulated entity*, is overdue for a period of less than 6 business days past regular settlement date, the following margin requirements may be applied:
- (i) Commencing on regular settlement date, the margin required is the equity deficiency, if any, calculated by determining the difference between (a) the net market value of all settlement date *investment product* positions in the client's account(s) and (b) the net money balance on a settlement date basis in the same account(s), and
 - (ii) Commencing on 6 business days or more past regular settlement date, the amount of margin to be provided shall be 100% of the debit balance.
- (6) **Line 3(b)** – In circumstances where a debit balance arises in a registered account, the following margin requirements may be applied:
- (i) where the debit balance is identifiable to a particular *investment product* transaction, the margin requirements as set out in Note 5 may be applied to the transaction,
 - (ii) where the debit balance arises from items that are contemplated by the *Corporation requirements* and *securities laws* and are set out in the trust agreement between the *Mutual Fund Dealer Member* and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquidate trust property, then the margin account rules may be applied,
 - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (7) **Line 4** – Where a *Mutual Fund Dealer Member* advances redemption proceeds to a client in accordance with section 5112(1), these proceeds are reported as debit balances on Line 4(a) and (b). The margin required to be reported by the *Mutual Fund Dealer Member* is equal to the amount of the advanced redemption proceeds.
- (8) **Line 6** – The name of the RRSP trustee(s) used by the *Mutual Fund Dealer Member* must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).

Form 1, Part II – Schedule 4

Investment Dealer Member's name

Date

Analysis of clients' trading accounts ~~long and short~~ – Investment Dealer Members

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable institutions</i>			
2. <i>Acceptable counterparties</i>			
3. Other clients:			
(a) Margin accounts			
(b) Cash accounts			
(c) Unsecured debits and shorts		N/A	
4. Futures accounts			
5. Margin on extended settlements	N/A	N/A	
6. Free credits	N/A		N/A
		~~DF~~ -Sec. A-2	
6. (a) Free credits, pending trades [if applicable]	N/A		N/A
7. RRSP and other similar accounts			
8. Less - allowance for bad debts			
9. Total			
	A-9	A- ~~53~~ <u>54</u>	B- ~~12~~ <u>13</u>

10. Supplementary disclosure:

(a) Name of RRSP trustee(s)

1. _____
2. _____
3. _____

(b) Total margin reductions from offsets against IA reserves
and PDO guarantees

Form 1, Part II – Schedule 4

Notes and instructions

- (1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by the Corporation. Investment Dealer Members must report their client balances and associated margin requirements on this schedule. If a Mutual Fund Dealer Member chooses to offer margin lending to its clients under subsection 5112(2), the Mutual Fund Dealer Member must report their client balances and associated margin requirements on this schedule in accordance with the same requirements as Investment Dealer Members.

- (2) **Lines 1 to 4** - Balances including *extended settlement date* transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in note 12 and reported on Line 5.

In CRO Bulletin 24-0067, we propose to amend note (2) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (2) **Lines 1 to 4** - Balances reported on these lines should include:

- (i) *extended settlement date* transactions, and
- (ii) cash collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed client fully paid or excess margin securities.

The margin related to extended settlements should be calculated as described in note 12 and reported on Line 5.

- (3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except

- (i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,
- (ii) futures positions, which are margined as prescribed in subsections 5790-~~(15790(1))~~ and (2).

This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

Any transaction which has not been confirmed by an acceptable institution within 15 business days of the trade shall be margined.

- (4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790-~~(15790(1))~~ and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date ~~security~~investment product positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade ~~date~~, shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

- (5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:

- (i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required ~~securities~~investment products, as the case may be.
- (ii) Payment by a customer in respect of any margin account transaction may be by:
 - (a) cash or other immediately available funds,
 - (b) applying the loan value of ~~securities~~investment products to be deposited,
 - (c) applying the excess loan value in the account or in a guarantor's account.
- (iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
- (iv) Advancing funds or delivering ~~securities~~investment products from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

In CRO Bulletin 24-0067, we propose to add the additional clause under note (5) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (v) Where the *Dealer Member* borrows excess margin securities from the client's margin account, the collateral provided to the client cannot be used to reduce any margin required in the account.

- (6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity, acceptable counterparty or acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For Investment Dealer Members determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and securityinvestment product positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

- (7) **Line 3(b)** - "**cash accounts**" means accounts which operate according to the following rules:

- (i) Cash accounts

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.

- (ii) Delivery against payment (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the Investment Dealer Member on or before settlement date for delivery by the Investment Dealer Member against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the Investment Dealer Member gives notice to the customer that the securitiesinvestment products purchased are available for delivery.

- (iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the Investment Dealer Member on or before settlement date for receipt of securitiesinvestment products by the Investment Dealer Member against payment to the customer shall be settled on the settlement date.

- (iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

- (a) cash or other immediately available funds;
- (b) the application of the proceeds of the sale of the same or other securitiesinvestment products held long in any cash account of the customer with the Investment Dealer Member provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- (c) the transfer of funds from a margin account of the customer with the Investment Dealer Member provided adequate margin is maintained in such account immediately before and after the transfer.

- (v) Isolated transactions

A customer shall be permitted in an isolated instance to:

- (a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same securityinvestment product in any cash account of the customer with the Investment Dealer Member;
- (b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- (c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

- (vi) Account restrictions

- (a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the Investment Dealer Member, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the Investment Dealer Member have been

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the Investment Dealer Member, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the Investment Dealer Member have been transferred in accordance with note 7(vii).

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the Investment Dealer Member, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the Investment Dealer Member to one or more newly established margin accounts of the customer with the Investment Dealer Member, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions*, *acceptable counterparties*, non-Dealer Member brokers, or *regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

- (a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date ~~security~~investment product positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

(~~I~~A) *Securities* that currently have a margin rate of 60% or less, are weighted at 1.000

(~~II~~B) Listed *securities* with a margin rate greater than 60% are weighted as 0.333

(~~III~~C) Nasdaq National Market® and Nasdaq SmallCap MarketSM securities with a margin rate of more than 60% are weighted as 0.333

(~~IV~~D) All other unlisted *securities* with a margin rate of more than 60% are weighted as 0.000.

- (b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;
- (c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

In CRO Bulletin 24-0067, we propose to add the additional clause under note (8)(i) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (d) Where the *Dealer Member* borrows fully paid *securities* from the client's cash account, the collateral provided to the client cannot be used to reduce any margin required on the account.

(ii) DAP and RAP accounts

- (a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date securityinvestment product positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

- (b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.
- (c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;
- (d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the Investment Dealer Member on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the Investment Dealer Member and pay for the securitiesinvestment products to be delivered, and in such event settlement shall be considered provided for by the customer.

(iv) Trade date margining

For Investment Dealer Members determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date securityinvestment product positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

- (9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.
- (10) **Line 3(c)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short securityinvestment product positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
- (11) **Line 4** - This line is to include balances for client accounts containing positions and offsets in futures contracts or futures contract options. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

Free credit balances should be included on Line 5.

- (12) **Line 5** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between an Investment Dealer Member and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 56)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement ¹		
Counterparty	30 days or less	Greater than 30 days
<i>Acceptable counterparty</i>	Market value deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying <u>securitiesinvestment products</u>)

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

- ¹ Calendar days refers to the original term of the extended settlement transaction.
- ² Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

- (13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. Investment Dealer Members margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those Investment Dealer Members margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.
- (14) **Line 6(a)** - For those Investment Dealer Members reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.
- (15) **Line 7** - In circumstances where a debit balance arises in an RRSP or similar registered account, the following margin requirements apply:
- (i) where the debit balance is identifiable to a particular investment product transaction, the cash account rules as set out in Note 8(i) may be applied to the transaction,
 - (ii) where the debit balance arises from items that are contemplated by the Corporation requirements and securities laws and are set out in the trust agreement between the Investment Dealer Member and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquidate trust property, then the margin account rules may be applied,
 - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (16) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".
- ~~(16)~~ **Line 10(a)** - The name of the RRSP trustee(s) used by the Investment Dealer Member must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).
- (18) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the Investment Dealer Member and the IA permitting the Investment Dealer Member to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, Directors, and Officers of the Investment Dealer Member (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the Investment Dealer Member.

Form 1, Part II – Schedule ~~4A~~5

Dealer Member's name

Date

List of ten largest ~~value~~settlement date trading balances with acceptable institutions and acceptable counterparties

[excluding balances less than 20% of *risk adjusted capital* or \$250,000, whichever is the smaller]

On approved *acceptable institutions/acceptable counterparty list*

Name of institution	Yes/No	Acceptable institution	Acceptable counterparty	Debits C\$000's	Credits C\$000's	Margin C\$000's
Total						

Notes and instructions:

- (1) This schedule is to report only ten balances with an indication whether each balance is with an *acceptable institution* or an *acceptable counterparty*.
- (2) For balances with *acceptable institutions* and *acceptable counterparties* not on the approved lists, as published by the *Corporation*, please provide their latest audited financial statements.

Form 1, Part II – Schedule 6

Mutual Fund Dealer Member's name

Date

Analysis of brokers' and dealers' trading balances – Mutual Fund Dealer Members

<u>Category</u>	<u>Balances</u>		<u>Amount required</u>
	<u>Debit</u> <u>C\$000's</u>	<u>Credit</u> <u>C\$000's</u>	<u>to fully margin</u> <u>C\$000's</u>
1. <u>Regulated entities</u> [see notes]			
2. (a) <u>Dealer Member's own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the Corporation</u>			
(b) <u>Dealer Member's own affiliated/related partnerships or corporations - not approved</u> [see note 5 - give details]			
3. <u>Mutual funds or their agents</u> [see note 6]			
4. <u>Total</u>			
	<u>A-10</u>	<u>A-55</u>	<u>B-14</u>

Form 1, Part II – Schedule 6
Notes and instructions

- (1) This schedule is to include amounts owed to the *Mutual Fund Dealer Member* for the sale or redemption of nominee name client securities and amounts owed by the *Mutual Fund Dealer Member* for the purchase of nominee name client securities.
- (2) **Lines 1 and 2 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its *affiliated company*.
- (3) **Line 1** - This line is not to include non-arms’ length transactions which are to be reported on Line 2. Margin on balances with *regulated entities* must be provided as follows:
- (i) In the case of a *regular settlement date* transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency of (a) the net market value of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an *extended settlement date* transaction between a *Mutual Fund Dealer Member* and a *regulated entity*, commencing on *regular settlement date* the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
- (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 business days of the trade date shall be margined.
- (4) **Line 2(a)** - Margin must be provided as outlined for *regulated entities* in note 3 above.
- (5) **Line 2(b)** - If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 3 above.
- If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 3 for *acceptable counterparties*.
- If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities*, *acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 3.
- (6) **Line 3** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

Form 1, Part II – Schedule **57**

Investment Dealer Member's name

Date

Analysis of brokers' and ~~dealer~~dealers' trading balances – Investment Dealer Members

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable clearing corporations</i> trading balances [see notes]			
2. <i>Regulated entities</i> [see notes]			
3. (a) <i>Dealer Member's</i> own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the <i>Corporation</i>			
(b) <i>Dealer Member's</i> own affiliated/related partnerships or corporations - not approved [see note 6 - give details]			
4. (a) Other brokers and dealers not qualifying as <i>regulated entities</i> but qualifying as <i>acceptable counterparties</i> [see note 7 - give details]			
(b) Other brokers and dealers not qualifying as <i>regulated entities</i> or <i>acceptable counterparties</i> [see note 8 - give details]			
5. Mutual funds or their agents [see note 9]			
6. Total			
	A-10	A-54 55	B-13 14

Form 1, Part II – Schedule 57
Notes and instructions

- (1) This schedule is ~~only~~ to include the Investment Dealer Member's trading balances with regulated entities, acceptable clearing corporations, other brokers and mutual funds for ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or ~~79~~.
- (2) **Lines 1, 2, 3 and 4 where applicable** – Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its *affiliated* company.
- (3) **Line 1** – For definition, see general notes and definitions.

Margin on such balances should be provided as follows:

- (i) Trades settling through a net settlement system should be treated as if the other party to the trade was an *acceptable institution*. For example, CNS balances with CDS, and CNS balances with National Securities Clearing Corporation.
 - (ii) All transactions done through CDS outside of the CNS system should be treated as if with a single counterparty to be classified as an *acceptable counterparty* (even if some or all of the other parties qualify as an *acceptable institution*).
 - (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation's Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
- (4) **Line 2** – This line is not to include non-arms' length transactions which are to be reported on Line 3. Margin on balances with *regulated entities*, except futures accounts, must be provided as follows:
- (i) In the case of a *regular settlement date* transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an *extended settlement date* transaction between ~~an~~ an Investment Dealer Member and a *regulated entity*, commencing on *regular settlement date* the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
 - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.

Futures accounts with *regulated entities* containing positions and offsets in *futures contracts* or *futures contract options* are to be margined in accordance with subsection 5790(1) and margin deficiencies are to be reported on this line in accordance with subsection 5790(2).

- (5) **Line 3(a)** – Margin must be provided as outlined for *regulated entities* in note 4 above.
- (6) **Line 3(b)** – If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 4 above.

If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 4 for *acceptable counterparties*.

If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities, acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 4.

- (7) **Line 4(a)** – All balances must be margined in the same way as accounts of *acceptable counterparties* (see notes and instructions to Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts, options* and short sale deposits should also be reported on this line. This line should also include balances with approved *inter-dealer bond brokers*.

Approved *inter-dealer bond brokers* are those inter-dealer bond dealers that are approved by the Corporation and the Bourse de Montréal Inc. The list of approved *inter-dealer bond brokers* will be published from time to time through the issuance of a regulatory notice.

- (8) **Line 4(b)** – All balances must be margined in the same way as regular clients' accounts (see notes and instructions to

Form 1, Part II – Schedule 57
Notes and instructions (Continued)

Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with *inter-dealer bond brokers* which are not on the list of approved *inter-dealer bond brokers*.

- (9) **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

Form 1, Part II – Schedule ~~68~~

Dealer Member's name

Date

Current income taxes

C\$000's

Income tax liability (asset)

1.	Balance payable (recoverable) at last year-end	
2.	(a) Payments (made) or received relating to above balance	
	(b) Adjustments, including reassessments, relating to prior periods [give details if significant]	
3.	Total adjustment to prior years' payable (recoverable) taxes during current year	
4.	Subtotal [add or subtract Line 3 from Line 1]	
5.	Income tax expense (recovery)	~~E-37~~ <u>D-41</u>
6.	Less: Current installments	
7.	Other adjustments [give details if significant]	
8.	Total adjustment for current year's taxes	
9.	Total liability (asset) [add or subtract Line 8 from Line 4]	~~A-13~~ <u>14</u> , if asset A- ~~56~~ <u>58</u> , if liability

Form 1, Part II – Schedule 68A

Dealer Member's name

Date

Tax recoveries

	<u>Reference</u>	<u>C\$000's</u>
A. Tax recovery for risk adjusted capital		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 68, Line 5	_____
2. Commission and/or fees receivable (non-allowable assets) of \$ _____ multiplied by an effective corporate tax rate of _____%	A-2123	_____
3. Tax recovery – Assets [100% of lesser of Lines 1 and 2]		_____
4. Balance of current income tax expense available for margin and securities concentration charge tax recovery [Line 1 minus Line 3]		_____
5. Recoverable taxes from preceding three years of \$ _____ net of current year tax recovery (if applicable) of \$ _____		_____
6. Total available for margin tax recovery [Line 4 plus Line 5]		_____
7. <i>Total margin required</i> of \$ _____ multiplied by an effective corporate tax rate of _____%	B-2426	_____
8. Tax recovery – Margin [75% of lesser of Lines 6 and 7]		_____
9. Total tax recovery before tax recovery on securities concentration charge [Line 3 plus Line 8]		<u><u>B-26B-28</u></u>
10. Balance of taxes available for securities concentration charge tax recovery [Line 6 minus Line 8, must be greater than 0, else N/A]		_____
11. Total securities concentration charge of \$ _____ multiplied by an effective corporate tax rate of _____%	Sch. 10/Sch. 911	_____
12. Tax recovery – Securities concentration charge [75% of lesser of Lines 10 and 11]		<u><u>B-28B-30</u></u>
13. Total tax recovery <i>risk adjusted capital</i> [Line 3 plus Line 8 plus Line 12]		<u>C-3</u>
B. Tax recovery for early warning calculation:		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 68, Line 5	_____
2. Commission and/or fees receivable (allowable assets)	A-1516	_____
3. Commission and/or fees receivable (non-allowable assets)	A-2123	_____
4. Subtotal [Line 2 plus Line 3]		_____
5. Line 4 multiplied by an effective corporate tax rate of _____%		_____
6. Tax recovery – Income accruals [100% of lesser of Lines 1 and 5]		<u>C-9</u>

Form 1, Part II – Schedule 68A

Notes and instructions

- (1) **Section A – Assets:** The purpose of this calculation is to tax effect identifiable revenue related receivables which have been classified as non-allowable assets for capital purposes. In other words, the calculation gives recognition to the fact that in recording the receivable the *Dealer Member* generated revenue against which a tax provision has been set up.
- (2) **Section A – Margin:** The purpose of this calculation is to reduce the provision for contingent market losses on client and inventory positions (i.e. margin) by the appropriate allowance for taxes recoverable in the event of realization of such a market loss.
- (3) **Line A1** - If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on assets is allowed for *risk adjusted capital* purposes.
- (4) **Line A3** - If the *Dealer Member* has no income tax expense, then insert N/A on this line.
- (5) **Line A5** - The balance reported as the recoverable taxes from preceding three years should be the total taxes paid in the three preceding years, hence available for recovery. If the *Dealer Member* has reported a balance on Line A1 above, then no balance should be reported as the current year tax recovery on this line.
- (6) **Line B1** - If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on income accruals is allowed for early warning purposes.

Form 1, Part II – Schedule ~~7~~9

Dealer Member's name

Date

Analysis of ~~overdrafts~~, loans, securities loaned and repurchase agreements

		Amount of loan payable or cash received as collateral C\$000's [see note 3]	Market value of securities received as collateral C\$000's [see note 4]	Market value of securities delivered as collateral or loaned C\$000's [see note 4]	Required to margin C\$000's
~~1.~~	~~Bank overdrafts~~		N/A	N/A	Nil
	Loans payable:				
~~2.~~ <u>1.</u>	Acceptable institutions		N/A		Nil
~~3.~~ <u>2.</u>	Acceptable counterparties		N/A		
~~4.~~ <u>3.</u>	Regulated entities		N/A		
~~5.~~ <u>4.</u>	Others		N/A		
	Securities loaned:				
~~6.~~ <u>5.</u>	Acceptable institutions				Nil
~~7.~~ <u>6.</u>	Acceptable counterparties				
~~8.~~ <u>7.</u>	Regulated entities				
~~9.~~ <u>8.</u>	Others				
	Repurchase agreements:				
~~10.~~ <u>9.</u>	Acceptable institutions		N/A		Nil
~~11.~~ <u>10.</u>	Acceptable counterparties		N/A		
~~12.~~ <u>11.</u>	Regulated entities		N/A		
~~13.~~ <u>12.</u>	Others		N/A		
~~14.~~ <u>13.</u>	Total [Sum of Lines 1 through ~~13~~ <u>12</u>]				
		~~A-51~~ <u>A-52</u>			~~B-14~~ <u>B-15</u>

Form 1, Part II – Schedule 79

Notes and instructions

- (1) This schedule is to be completed for loan payable transactions, where the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.
- (2) For the purpose of this schedule, the following terms have the meanings set out below:

“cash loan payable”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow cash and deliver securities as collateral to the counterparty.
“excess collateral deficiency”	(i) For a <i>cash loan payable</i>, any excess of the <i>market value</i> of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or (ii) For a <i>securities loan arrangement</i>, any excess of the <i>market value</i> of the securities loaned over the <i>market value</i> of securities or the amount of cash received from the transaction counterparty as collateral.
“securities loan arrangement”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend securities and receive cash or securities as collateral from the counterparty.

- (3) Include accrued interest in amount of loan payable.
- (4) *Market value* of securities received or delivered as collateral should include accrued interest.
- (5) **Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

- (i) set out the rights of each party to retain and realize on securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
- (iv) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (iv)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (iv)(b) above, the written agreement must provide for the securities loaned, or the securities sold under a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(5) Written agreement requirements

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

- (i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the loaned or transferred asset value or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party,

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

- (iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the difference between the collateral and the securities, and
- (v) either:
 - (a) give the parties the right to set off their mutual debts, or
 - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities loaned in the case of a *securities loan arrangement*, or the securities sold in the case of a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) Cash loan payable

(i) Margin requirements

The margin requirements for a *cash loan payable* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) Securities loan arrangements

(i) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

- (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
- (III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,
 - (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

(iii) Agency securities loan arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities loan arrangement* to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the *Dealer Member* and the underlying principal borrower:

- (a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

(iv) Margin requirements for securities loan arrangements

The margin requirements for a *securities loan arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the securities loaned to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal *securities loan arrangements*, the counterparty is the principal in the *securities loan arrangement*,
 - (II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 business days of the trade shall be margined.

(8) Securities repurchase arrangements

(i) Written agreement requirements

If a *Dealer Member* has a written agreement for a securities repurchase arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.

(ii) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreement:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member*’s obligations. Any excess value on the realization on the purchased securities (and any additional

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

(iii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in notes 5 and 8(i)) are stipulated in the written agreements:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member*’s obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iv) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

- (a) where an agent is also the third party custodian and the requirements in (ii) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in (iii) are not all met.

(v) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in notes 5 and 8(i), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement ¹	Greater than calendar 30 days after regular settlement ¹
Acceptable institution	No margin ²	
Acceptable counterparty	Market value deficiency ²	Margin
Regulated entity	Market value deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the market value of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.
regulated entity within 15 *business days* of the trade shall be margined.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 5 and 8(i), for margin purposes:

- (I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,
- (II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are met, the counterparty is the agent,
- (III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(ii) or (iii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(8) Securities repurchase arrangements

(i) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member's* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member's* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iii) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

- (a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

	Margin required based on term of transaction	
Transaction counterparty type	30 calendar days or less after regular settlement ¹	Greater than calendar 30 days after regular settlement ¹
<i>Acceptable institution</i>	No margin ²	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ²	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency ²	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

¹ Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

² Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

- (I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,
- (II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,
- (III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin ¹
Acceptable counterparty	Market value deficiency ¹
Regulated entity	Market value deficiency ¹
Other	Margin

¹ Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions of Form 1, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 32, 43, 76 and 87** - In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 1110 and 1211** - In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 54, 98 and 1312** - In the case of a *cash loan payable* or a *securities loan* or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 13 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

- (13) **Lines 54, 98 and 1312** - In the case of a *cash loan payable* or a *securities loan* or a repurchase arrangement / transaction

Form 1, Part II – Schedule 79
Notes and instructions (Continued)

between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

- (14) **Lines 21, 32 and 43** - In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
- (15) **Lines 54, 98, and 1312** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(ii) and (iii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an “other” party) should be reported and margined as “Others”.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 15 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

- (15) **Lines 54, 98, and 1312** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an “other” party) should be reported and margined as “Others”.

Form 1, Part II – Schedule 79A

Dealer Member's name

Date

Cash and securities borrowing and lending arrangements concentration charge

	Reference	C\$000's
1. Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 2	
2. Market value deficiency amount relating to loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 3	
3. Market value deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 6	
4. Market value deficiency amount relating to securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 7	
5. Market value deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 79, Line 32	
6. Market value deficiency amount relating to loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 79, Line 43	
7. Market value deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 79, Line 76	
8. Market value deficiency amount relating to securities lent to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 79, Line 87	
9. Total market value deficiency exposure with <i>acceptable counterparties</i> and <i>regulated entities</i> , net of legal offsets and margin already provided [Sum of Lines 1 to 8]		
10. Concentration threshold – 100% of net allowable assets		
11. Concentration Charge [Excess of Line 9 over Line 10, otherwise nil]		B-2123

Form 1, Part II – Schedule 10

Mutual Fund Dealer Member's nameDate

Concentration of securities – Mutual Fund Dealer Members
Summary sheet

[Mutual Fund Dealer Member's own position (see Sch 10, note 2)]

[illegible]B-30

Form 1, Part II – Schedule 10

Notes and instructions

Introduction

- (1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 10A) or a Debt Security Test methodology (Schedule 10B). The Schedule 10 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 10A and 10B, whether or not a concentration charge applies. If there are more than ten positions where a concentration exposure exists, then all such positions must be listed.

Schedule 10 applies only to inventory positions for *Mutual Fund Dealer Members* that do not offer margin lending or extensions of credit to client accounts. If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the *Mutual Fund Dealer Member* must report their concentration exposures on Schedule 11 in accordance with the same requirements as *Investment Dealer Members*.

The notes and instructions to Schedule 10 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 3, 5(ii), and 10.

The notes and instructions to Schedules 10A and 10B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 10B detail adjustments applicable to the Debt Security Test.

Calculation requirements applicable to both tests, notes 2-11

- (2) The securities and precious metals positions included for exposure testing are those where an inventory position is being held.
- (3) For short positions reported on Schedule 10A, the loan value is the *market value* of the short position. For short positions reported on Schedule 10B, the loan value is the same as calculated for long positions.

Dealer Member's own position

- (4) *Mutual Fund Dealer Member's* own inventory positions are to be reported on a trade date basis. All security positions that qualify for a margin offset may be eliminated.

Amount loaned

- (5) The *Mutual Fund Dealer Member's* own position reported is to be determined based on the long or short position that results in the largest amount loaned exposure.

(i) To determine the amount loaned on the long position exposure, calculate:

- the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long *Mutual Fund Dealer Member's* own position (if any).

(ii) To determine the amount loaned on the short position exposure reported on Schedule 10A, calculate:

- the *market value* of the net short *Mutual Fund Dealer Member's* own position (if any).

Calculate the amount loaned on the short position exposure reported on Schedule 10B according to the same methodology described in note 5(i).

(iii) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration thresholds

- (6) The following concentration thresholds apply:

Form 1, Part II – Schedule 10
Notes and instructions (Continued)

<u>Amount loaned issuer classification</u>	<u>Issuer classification or special application criteria</u>	<u>Amount loaned concentration threshold</u>
<u>(i) Related or “non-arm’s length” securities</u>	<u>Securities issued by:</u> <u>(a) the Mutual Fund Dealer Member, or</u> <u>(b) a company meeting all of the following thresholds:</u> • <u>Mutual Fund Dealer Member accounts are included in the consolidated financial statements</u> • <u>the assets and revenue of the Mutual Fund Dealer Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the Mutual Fund Dealer Member for the preceding fiscal year.</u>	<u>One-third of the sum of the Mutual Fund Dealer Member’s risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.</u>
<u>(ii) Non-related or arm’s length marginable securities</u>	<u>Securities, or a precious metal position, other than those described in note 6(i) above.</u>	<u>Two-thirds of the sum of the Mutual Fund Dealer Member’s risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.</u>
<u>(iii) Additional exposures</u>	<u>The following scenarios result in a reduced concentration threshold for any other issuer or other property position:</u> <u>(a) Multiple violations: If the Mutual Fund Dealer Member has already incurred a concentration charge for an issuer position or precious metal position under notes 6(i), or 6(ii); or,</u> <u>(b) Material exposures: If the Mutual Fund Dealer Member has already measured a concentration exposure on any one non-related issuer or a precious metal position in excess of one-half of the sum of risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.</u>	<u>One-half of the sum of the Mutual Fund Dealer Member’s risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.</u> <u>Any additional exposures for issuer positions classified under 6(i) are measured at one-third of the sum of the Mutual Fund Dealer Member’s risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.</u>

(7) The additional exposures threshold reductions detailed in note 6(iii) apply to all issuer positions tested under Schedule 10, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 10A and 10B.

Concentration charge

(8) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 6 is required unless the excess is cleared within five business days of the date it first occurs.

(9) For the purpose of calculating the concentration charges as required by notes 6(i), 6(ii), 6(iii), and 8 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 10A and the largest three issuer positions originating from Schedule 10B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 6(i) are ranked first on Schedule 10.

Form 1, Part II – Schedule 10
Notes and instructions (Continued)

(10) For Schedule 10A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 10B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

Other

(11) (i) Where there is an over exposure in a security or precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the *Mutual Fund Dealer Member* must report the over exposure situation to the *Corporation* on the date the over exposure first occurs.

(ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in “readily saleable quantities”.

Form 1, Part II – Schedule 10A

Mutual Fund Dealer Member's name

Date

Concentration of securities – Mutual Fund Dealer Members

General Security Test

[Mutual Fund Dealer Member's own position, excluding debt securities with a margin rate of 10% or less (see Sch. 10, note 2 and Sch. 10A, note 3)]

[illegible]

Form 1, Part II – Schedule 10A
Notes and instructions

General Security Test

- (1) Mutual Fund Dealer Members must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than *debt securities* cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
- (3) Exclude all:
- (i) debt securities with a normal margin requirement of 10% or less, and
 - (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to *diversified investment product* positions may be treated as an amount loaned exposure to each of the individual securities comprising the basket. These amount loaned exposures may be reported by breaking down the *diversified investment product* position into its underlying constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.
- To calculate the combined amount loaned exposure for each constituent security position held, sum:
- (i) the individual security positions held, and
 - (ii) the constituent security position held.
- (For example, if ABC security has a 7.3% weighting in a *diversified investment product*, the number of securities that represents 7.3% of the value of the *diversified investment product* position shall be reported as the constituent security position.)

Form 1, Part II – Schedule 10B

Mutual Fund Dealer Member's name

Date

Concentration of securities – Mutual Fund Dealer Members

Debt Security Test

[Mutual Fund Dealer Member's own position, excluding positions reported on Schedule 10A (see Sch. 10, note 2)]

[illegible]

Form 1, Part II – Schedule 10B MFD
Notes and instructions

Debt Security Test

- (1) Mutual Fund Dealer Members must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to debt securities with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in debt securities with a normal margin requirement of 10% or less, other than debt securities cited in note 3).
- (3) Exclude non-commercial debt securities with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum designated rating organization current credit rating requirements and qualifications:

Exclusions from Schedule 10B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
<u>1.</u>	<u>Non-commercial debt securities with a normal margin rate of less than 10%, issued or guaranteed by the following:</u> <u>national governments of Canada, United Kingdom, and United States</u> <u>Canadian provincial governments</u> <u>the International Bank for Reconstruction and Development</u> <u>Canadian and United Kingdom municipal corporations</u>	<u>Not applicable</u>	<u>Not applicable (N/A)</u>
<u>2.</u>	<u>Other non-commercial debt securities with a normal margin rate of 10% or less</u>	<u>A</u>	
<u>3.</u>	<u>Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following:</u> <u>A Canadian financial institution qualifying as an acceptable institution</u> <u>A foreign financial institution qualifying as an acceptable institution</u>	<u>R-1(low), F1, P-1, A-1(low)</u>	<u>Structured finance products as defined in National Instrument 25-101 are not eligible for exclusion</u>

Additional netting allowance for Mutual Fund Dealer Member's own position

- (4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 10, note 4. The remaining net long (short) Mutual Fund Dealer Member's own inventory position may be calculated on a net basis. The offsetting of positions is allowed if:
- (i) the positions are of the same seniority, or
- (ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

Additional amount loaned adjustments available for the Debt Security Test

Form 1, Part II – Schedule 10B MFD
Notes and instructions (Continued)

(5) If the loan value of an issuer position does not exceed one-half (one-third in the case of an issuer position which qualifies under Schedule 10, note 6(ii)) of the sum of the *Mutual Fund Dealer Member's risk adjusted capital before securities concentration charge and minimum capital* (Statement B, Line 8) as most recently calculated, the additional amount loaned adjustments and completion of the columns titled "Risk-weighting adjustment factor %" (Schedule 10B, Column 7), and "Risk-weighted amount loaned" (Schedule 10B, Column 8) is optional.

(6) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk-weighting adjustments for debt securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term rating:			
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

(7) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:

- (i) commercial *debt securities* must be ranked senior to any outstanding *equity securities* from the same issuer in the statutory creditor hierarchy, or contractually
- (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

2-step methodology for determining risk-weighting adjustment factor

(8) Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 6) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 10, notes 6(i), 6(ii), 6(iii), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

1. calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 10B, Column 6) for the issuer.
2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

Investment Dealer Member's name

Concentration of securities – Investment Dealer Members
Summary sheet

1

Final adjusted
amount loaned
C\$000's

[Sch. 911, note 7 and
Sch. 911B notes 5, 6 and
7]

3

Concentration test
identifier (Sch. 911A
or Sch. 911B)

4

Long / Short ("L" or "S")

5

Concentration
threshold

6

Schedule 911B, no#
of DROs used, if any
[Sch. 911B, note 5]

7

Concentration charge
C\$000's
[Sch. 911, note 10]

Description of issuer or precious metal positions

[illegible][illegible][illegible][illegible][illegible][illegible][illegible]

~~B-28~~B-30

Form 1, Part II – Schedule 911

Notes and instructions

Introduction

- (1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 911A) or a Debt Security Test methodology (Schedule 911B). The Schedule 911 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 911A and 911B, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.

Investment Dealer Members must report their concentration exposures on this schedule. If a Mutual Fund Dealer Member chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the Mutual Fund Dealer Member must report their concentration exposures on this schedule in accordance with the same requirements as Investment Dealer Members.

The notes and instructions to Schedule 911 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 4, 7(ii), and 12.

The notes and instructions to Schedules 911A and 911B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 911B detail additional adjustments applicable to the Debt Security Test.

Calculation requirements applicable to both tests, notes 2-13

- (2) The securities and precious metals positions included for exposure testing are those where:
- (i) loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account, or
 - (ii) an inventory position is being held.
- (3) Securities and precious metals that are required to be in *segregation* or *safekeeping* should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the Investment Dealer Member for loan value, and must be included in the issuer position and precious metal position.
- (4) For short positions reported on Schedule 911A, the loan value is the *market value* of the short position. For short positions reported on Schedule 911B, the loan value is the same as calculated for long positions.

Client position

- (5) (i) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts (when any transaction in the account is outstanding after settlement date) and delivery against payment and receipt against payment accounts (when any transaction in the account is outstanding after settlement date). Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.
- (ii) Positions in delivery against payment and receipt against payment accounts with *acceptable institutions*, *acceptable counterparties*, or *regulated entities* resulting from transactions that are outstanding less than ten *business days* past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten *business days* or more past settlement and is not confirmed for clearing through an *acceptable clearing corporation* or not confirmed by the *acceptable institution*, *acceptable counterparty* or *regulated entity*, then the position must be included in the position reported.

Dealer Member's own position

- (6) (i) Investment Dealer Member's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty *business days* after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.

Form 1, Part II – Schedule 911
Notes and instructions (Continued)

- (ii) The amount reported must include uncovered stock positions in market-maker accounts.

Amount loaned

- (7) The client and Investment Dealer Member's own positions reported are to be determined based on the combined client/Investment Dealer Member's own long or short position that results in the largest amount loaned exposure.

- (i) To calculate the combined amount loaned on the long position exposure, combine:
- the loan value of the gross long client position (if any) contained within client margin accounts,
 - the weighted *market value* (calculated pursuant to the weighted *market value* calculation set out in Schedule 4, note 8(i)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(i)(b)) of the gross long client position (if any) contained within client cash accounts,
 - the *market value* (calculated pursuant to the *market value* calculation set out in Schedule 4, note 8(ii)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(ii)(b)) of the gross long client position (if any) contained within client delivery against payment accounts, and
 - the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long Investment Dealer Member's own position (if any).
- (ii) To calculate the combined amount loaned on the short position exposure reported on Schedule 911A, combine
- the *market value* of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts, and
 - the *market value* of the net short Investment Dealer Member's own position (if any).

Calculate the combined amount loaned on the short position exposure reported on Schedule 911B according to the same methodology described in note 7(i).

- (iii) If the loan value of an issuer position or a precious metal position (net of issuer securities or precious metal position required to be in *segregation/safekeeping*) does not exceed one-half (one-third in the case of an issuer position or precious metal position which qualifies under either note 8(i) or 8(ii) below) of the sum of the Investment Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 78) as most recently calculated, the completion of the columns titled "Adjustments in arriving at Amount Loaned" (on Schedules 911A and 911B), "Risk-weighting adjustment factor %" (Schedule 911B), and "Risk-weighted amount loaned" (Schedule 911B) is optional. However, nil should be reflected for the concentration charge.
- (iv) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
- (a) Security positions and precious metal positions that qualify for a margin offset may be excluded, as previously discussed in notes 5(i) and 6(i),
 - (b) Security positions and precious metal positions that represent excess margin in the client's account may be excluded. (If the starting point of the calculations is securities or precious metal positions not required to be in *segregation/safekeeping*, this deduction has already been included in the loan value calculation of Column 7 on Schedules 911A and 911B.),
 - (c) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded,
 - (d) In the case of margin accounts, 25% of the *market value* of long positions in any: (I) non-marginable securities or, (II) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,
 - (e) In the case of cash accounts, 25% of the *market value* of long positions in any securities whose *market value* weighting is 0.000 (pursuant to Schedule 4, note 8(i)(a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,

Form 1, Part II – Schedule 911
Notes and instructions (Continued)

- (f) The amount loaned values of trades made with financial institutions that are not *acceptable institutions*, *acceptable counterparties* or *regulated entities*, if the trades are outstanding less than 10 *business days* past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an *acceptable institution* may be deducted from the amount loaned calculation, and
- (g) Any security positions or precious metal positions in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a *guarantee* agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.
- (v) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration thresholds

- (8) The following concentration thresholds apply:

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
(i) Related or "non-arm's length" securities	Securities issued by: (a) the <u>Investment Dealer Member</u> , or (b) a company meeting all of the following thresholds: • <u>Investment Dealer Member</u> accounts are included in the consolidated financial statements • the assets and revenue of the <u>Investment Dealer Member</u> constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the <u>Investment Dealer Member</u> for the preceding fiscal year.	One-third of the sum of the <u>Investment Dealer Member's risk adjusted capital</u> before securities concentration charge and minimum capital (Statement B, Line <u>78</u>), as most recently calculated.
(ii) Non-marginable securities of an issuer held in a cash account(s)	Non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted <i>market value</i> calculation set out in Schedule 4, note 8(i)(a)(<u>iii</u>).	
(iii) Non-related or arm's length marginable securities	Securities, or a precious metal position, other than those described in notes 8(i) and 8(ii) above.	Two-thirds of the sum of the <u>Investment Dealer Member's risk adjusted capital</u> before securities concentration charge and minimum capital (Statement B, Line <u>78</u>), as most recently calculated.
(iv) Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or precious metal position: (a) <u>Multiple violations</u> : If the <u>Investment Dealer Member</u> has already incurred a concentration charge for an issuer position or precious metal position under notes 8(i), 8(ii), or 8(iii); or, (b) <u>Material exposures</u> : If the <u>Investment Dealer Member</u> has already measured a concentration exposure on any one non-related issuer or a precious metal position	One-half of the sum of the <u>Investment Dealer Member's risk adjusted capital</u> before securities concentration charge and minimum capital (Statement B, Line <u>78</u>), as most recently calculated. Any additional exposures for issuer positions classified under 8(i) or 8(ii) are measured at one-third of the sum of the <u>Investment Dealer Member's risk adjusted</u>

Form 1, Part II – Schedule 911
Notes and instructions (Continued)

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
	in excess of one-half of the sum of <i>risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 78), as most recently calculated.	<i>capital</i> before securities concentration charge and minimum capital (Statement B, Line 78), as most recently calculated.

- (9) The additional exposures threshold reductions detailed in note 8(iv) apply to all issuer positions tested under Schedule 911, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 911A and 911B.

Concentration charge

- (10) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 8 is required unless the excess is cleared within five *business days* of the date it first occurs.
- (11) For the purpose of calculating the concentration charges as required by notes 8(i), 8(ii), 8(iii), 8(iv), and 10 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 911A and the largest three issuer positions originating from Schedule 911B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 8(i) and 8(ii) are ranked first on Schedule 911.
- (12) For Schedule 911A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 911B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

Other

- (13) (i) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the Investment Dealer Member must report the over exposure situation to the *Corporation* on the date the over exposure first occurs.
- (ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in “readily saleable quantities”.

Form 1, Part II – Schedule ~~9~~11A

Investment Dealer Member's name

Date _____

Concentration of securities – Investment Dealer Members

General Security Test

[excluding securities required to be in *segregation* or safekeeping & debt securities with a margin rate of 10% or less (see Sch. [911](#), note 3 and Sch. [911A](#), note 3)]

[illegible]

See notes and instructions

Jan~~xxx~~-2023~~xxxx~~

Form 1, Part II – Schedule 911A
Notes and instructions

General Security Test

- (1) Investment Dealer Members must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than *debt securities* cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
- (3) Exclude all:
 - (i) *debt securities* with a normal margin requirement of 10% or less, and
 - (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to ~~broad-based index~~diversified investment product positions may be treated as an amount loaned exposure to each of the individual securities comprising the ~~index~~ basket. These amount loaned exposures may be reported by breaking down the ~~broad-based index~~diversified investment product position into its underlying constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each ~~index~~ constituent security position held, sum:

- (i) the individual security positions held, and
- (ii) the constituent security position held.

(For example, if ABC security has a 7.3% weighting in a ~~broad-based index~~diversified investment product, the number of securities that represents 7.3% of the value of the ~~broad-based index~~diversified investment product position shall be reported as the constituent security position.)

Form 1, Part II – Schedule ~~9~~11B

Investment Dealer Member's name

Date

Concentration of securities – Investment Dealer Members

Debt Security Test

[excluding securities required to be in *segregation* or safekeeping & positions reported on Schedule 911A (see Sch. 911, note 3)]

[illegible]

See notes and instructions

Jan~~xxx~~-2023~~xxxx~~

Form 1, Part II – Schedule 911B
Notes and instructions

Debt Security Test

- (1) Investment Dealer Members must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to *debt securities* with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in *debt securities* with a normal margin requirement of 10% or less, other than *debt securities* cited in note 3).
- (3) Exclude non-commercial *debt securities* with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum *designated rating organization* current credit rating requirements and qualifications:

Exclusions from Schedule 911B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Non-commercial <i>debt securities</i> with a normal margin rate of less than 10%, issued or guaranteed by the following: • national governments of Canada, United Kingdom, and United States • Canadian provincial governments • the International Bank for Reconstruction and Development • Canadian and United Kingdom municipal corporations	Not applicable	Not applicable (N/A)
2.	Other non-commercial <i>debt securities</i> with a normal margin rate of 10% or less	A	
3.	Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: • A Canadian financial institution qualifying as an <i>acceptable institution</i> • A foreign financial institution qualifying as an <i>acceptable institution</i>	R-1(low), F1, P-1, A-1(low)	Structured finance products as defined in National Instrument 25-101 are not eligible for exclusion

Additional netting allowance for Dealer Member's own position and client position

- (4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 911, notes 5(i) and 6(i). The remaining net long (short) Investment Dealer Member's own inventory position may be calculated on a net basis. Individual client account positions are also eligible for this netting allowance. The offsetting of positions is allowed if:
 - (i) the positions are of the same seniority, or
 - (ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

It is not permitted to net the Investment Dealer Member's own position against client positions, or to net exposures across client accounts. Netting across client accounts is only permitted in accordance with section 5830 of the **Corporation Investment Dealer and Partially Consolidated Rules**, supported by a written hedge agreement in a form acceptable to the **Corporation**.

Form 1, Part II – Schedule 911B
Notes and instructions (Continued)

Additional amount loaned adjustments available for the Debt Security Test

- (5) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk-weighting adjustments for debt securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term rating:			
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

- (6) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
- (i) commercial *debt securities* must be ranked senior to any outstanding *equity securities* from the same issuer in the statutory creditor hierarchy, or contractually
 - (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

2-step methodology for determining risk-weighting adjustment factor

- (7) Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 5) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 911, notes 8(i), 8(ii), 8(iii), 8(iv), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

1. calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 911B, Column 9) for the issuer.
2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

Form 1, Part II – Schedule 1012

Dealer Member's name

Date

Insurance

A. Financial Institution Bond (FIB) clauses (a) to (e)

	<u>Reference</u>	<u>C\$000's</u>	<u>C\$000's</u>
1- Coverage <u>Minimum coverage</u> required for <u>FIB</u> <u>each</u> <u>clause:</u>			
<u>Mutual Fund Dealer Members categorized as Level 1, 2 or 3 Dealers and Investment Dealer Members who are Type 1 introducing brokers</u>			
1. (a) <u>Minimum coverage of</u>			<u>\$200</u>
(a) <u>Client net equity:</u>		<u>x 0.5%</u>	<u>[see note 3]</u>
i) <u>Dealer Member's own</u>			
ii) <u>Carrying brokers' introducing brokers</u>			
<u>Total</u>		<u>x 1%*</u>	<u>[see note 4]</u>
(b) <u>Total liquid assets</u>	<u>A-12</u>		
(c) <u>Total other allowable assets</u>	<u>A-1820</u>	<u>x 0.5%</u>	
<u>Total</u>		<u>x 1%*</u>	
The actual coverage required for each clause is the greater of (a) and (b), with a minimum requirement of \$500,000 (\$200,000 for a Type 1 introducing broker), and a maximum requirement of \$25,000,000.			
*based on one half of one percent for Types 1 and			
<u>Greater of (a), (b) and (c) above to maximum of \$25,000,000</u>			
<u>Investment Dealer Members who are Type 2 introducing brokers</u>			
2. (a) <u>Minimum coverage of</u>			<u>\$500</u>
(b) <u>Client net equity</u>		<u>x 0.5%</u>	<u>[see note 3]</u>
(c) <u>Total allowable assets</u>	<u>A-20</u>	<u>x 0.5%</u>	
<u>Greater of (a), (b) and (c) above to a maximum of \$25,000,000</u>			
<u>All other Dealer Members</u>			
3. (a) <u>Minimum coverage of</u>			<u>\$500</u>
(b) <u>Client net equity:</u>			
i) <u>Dealer Member's own</u>			
ii) <u>Carrying brokers' introducing brokers</u>			
<u>Total</u>		<u>x 1%</u>	<u>[see note 3]</u>
(c) <u>Total allowable assets</u>	<u>A-20</u>	<u>x 1%</u>	
<u>Greater of (a), (b) and (c) above to a maximum of \$25,000,000</u>			
2-4. Coverage maintained per FIB			<u>[see notes 54 and 98]</u>
3-5. Excess/(deficiency) in coverage			<u>[see note 65]</u>
4-6. Amount deductible under FIB (if any)			<u>[see note 76]</u>

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Form 1, Part II – Schedule 1012 (Continued)

B. Registered mail insurance

1. Coverage per mail policy

[see note 87]

C. FIB and registered mail policy information [see note 98]

Insurance company	Name of the insured	FIB/registered mail	Expiry date	Coverage	Type of aggregate limit	Provision for full reinstatement	Premium

D. Losses and claims [see note 10]

Date of loss	Date of discovery	Amount of loss	Deductible applying to loss	Description	Claim made?	Settlement	Date settled

Form 1, Part II – Schedule ~~10~~12

Notes and instructions

- (1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the *Corporation requirements* and the rules of the *Investor Protection Fund*.
- (2) Schedule ~~10~~12 must be completed at the audit date and monthly as part of the *monthly financial report*.
- ~~(3) The following term(s) has the meaning set out when used in this schedule:~~

~~“Other acceptable property”~~	~~London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in section 5430.~~

- ~~(43)~~ Net equity for each client is the net value of cash, securities, precious metals bullion and other investment products held or controlled by the Dealer Member on behalf of clients. The net value is determined as the total value of cash, securities, precious metals bullion and other ~~acceptable property~~investment products owed to the client by the *Dealer Member* less the total value of cash, securities, precious metals bullion and other ~~acceptable property~~investment products owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, options, futures contracts, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. ~~Schedule 10 Part A, Line 1(a) is the~~The aggregate net equity for each client is reported on Schedule 12 Part A, Lines 1(b), 2(b) and 3(b) depending on the Dealer Member type or level. Negative client net equity, (i.e. total deficiency in net equity owed to the *Dealer Member* by the client) is not included in the aggregate. Cash and securities held by a Dealer Member in its capacity as agent for the trustee must be included in the determination of total client net equity held by the Dealer Member.

For a Dealer Level 1 and 2, the client net equity reported on Line 1(b) should be zero since these Dealer Members do not hold client assets. For a Dealer Level 3, the client net equity reported on Line 1(b) should only include client cash in trust held by the Dealer Member since the Dealer Member does not hold client securities or other investment products.

For introducing broker/carrying broker arrangements, both the introducing broker and the carrying broker must include the accounts introduced/carried when calculating the client net equity.

For Schedule ~~10~~12, *guarantee/guarantor* agreements should not be considered in the calculation of net equity.

In CIRO Bulletin 24-0067, we propose to amend the above sentence as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

For Schedule ~~10~~12, the following should not be considered in the calculation of net equity:

- (i) *guarantee/guarantor* agreements, and
- (ii) collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed the client's fully paid or excess margin securities.

The client net equity calculation should include all retail and *institutional client* accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, *affiliates* and other similar accounts.

- ~~(54)~~ A *Dealer Member* must have and maintain insurance against losses, using a Financial Institution Bond with a discovery rider attached or discovery provisions incorporated in the Financial Institution Bond. A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bonds containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

- ~~(65)~~ The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors' Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.
- ~~(76)~~ A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member's* margin requirement is increased by the amount of the deductible.

- ~~(7)~~ The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 12, Part A Line 4).

- (8) **Part B** - Unless specifically exempted within the *Corporation requirements*, every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.

Form 1, Part II – Schedule ~~10~~12
Notes and instructions (Continued)

~~(9)~~—~~The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 10, Line 2).~~

~~(10)~~ Part C - List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.

~~(1110)~~ Part D - List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the "Amount of loss" column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Part D of Schedule ~~10~~12 until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

Form 1, Part II – Schedule ~~11~~13

Dealer Member's name

Date

Unhedged foreign currencies calculation

Summary

C\$000's

A. Total foreign exchange margin requirement

~~B-17~~B-18

B. Details for individual currencies with margin requirement greater than or equal to \$5,000:

Foreign currency with margin requirement $\geq$ \$5,000

(For each foreign currency, a Schedule ~~11~~13A or 13B must be completed)

Margin group

Required margin

.....		
.....		
.....		
.....		
.....		

Subtotal

All other foreign exchange margin requirement

Total

.....
.....
.....
.....

Form 1, Part II – Schedule 13A

Mutual Fund Dealer Member's name

Date

Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000 – Mutual Fund Dealer Members

Foreign currency: _____

Foreign currency group: _____

	<u>Amount</u>	<u>Margin required</u>
<u>Balance sheet items less than or equal to two days to maturity</u>		
1. <u>Total monetary assets</u>	-----	
2. <u>Total monetary liabilities</u>	-----	
3. <u>Net long (short) foreign exchange positions</u>	-----	
4. <u>Net foreign exchange position multiplied by spot risk for Group _____ of _____ %</u>		-----
5. <u>Spot rate at reporting date</u>		-----
6. <u>Margin requirement converted to Canadian dollars</u>		-----
<u>Foreign exchange concentration charge</u>		
7. <u>Total foreign exchange margin [Line 6] in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1]</u>		-----
<u>Total foreign exchange margin for (currency):</u>		-----
		<u>Sch. 13</u>

Form 1, Part II – Schedule ~~11A~~13B

Dealer Member's name

Date

Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000 – Investment Dealer Members

Foreign currency: _____

Foreign currency group: _____

	<u>Amount</u>	<u>Weighted value</u>	<u>Margin required</u>
Balance sheet items and forward/future commitments less than or equal to two years to maturity			
1. Total <i>monetary assets</i>	_____	_____	_____
2. Total long forward/ <i>futures contract</i> positions	_____	_____	_____
3. Total <i>monetary liabilities</i>	_____	_____	_____
4. Total (short) forward/ <i>futures contract</i> positions	_____	_____	_____
5. Net long (short) foreign exchange positions	_____	_____	_____
6. Net weighted value	_____	_____	_____
7. Net weighted value multiplied by term risk for Group ____ of ____%	_____	_____	_____
Balance sheet items and forward/future commitments greater than two years to maturity			
8. Total <i>monetary assets</i>	_____	_____	_____
9. Total long forward/ <i>futures contract</i> positions	_____	_____	_____
10. Total <i>monetary liabilities</i>	_____	_____	_____
11. Total (short) forward/ <i>futures contract</i> positions	_____	_____	_____
12. Net long (short) foreign exchange positions	_____	_____	_____
13. Greater of long or (short) weighted values	_____	_____	_____
14. Net weighted value multiplied by term risk for Group ____ of ____%	_____	_____	_____
Foreign exchange margin requirements			
15. Net long (short) foreign exchange positions	_____	_____	_____
16. Net foreign exchange position multiplied by spot risk for Group ____ of ____%	_____	_____	_____
17. Total term risk and spot risk margin requirement	_____	_____	_____
18. Spot rate at reporting date	_____	_____	_____
19. Margin requirement converted to Canadian dollars	_____	_____	_____
Foreign exchange concentration charge			
20. Total foreign exchange margin [Line 19] in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1]	_____	_____	_____
Total foreign exchange margin for (currency):	_____	_____	_____

Sch. ~~11A~~13

Form 1, Part II – Schedules ~~11~~13, 13A and ~~11A~~13B

Notes and instructions

~~(1)~~—

- (1) The purpose of this schedule is to measure the balance sheet exposure a *Dealer Member* has to foreign currency risk. Schedule ~~11~~13A or Schedule 13B must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.
- [Schedule 13A details the foreign currency margin calculation for a *Mutual Fund Dealer Member's* foreign currency exposure.](#)
[Schedule 13B details the foreign currency margin calculation for an *Investment Dealer Member's* foreign currency exposure.](#)
- (2) The following is a summary of the quantitative and qualitative criteria for currency groups 1-4. *Dealer Members* should refer to the *Corporation's* most recently published listing of currency groupings.
- (i) A Group 1 currency must (a) have a spot price volatility level of less than or equal to 1%, and (b) be a primary intervention currency of the Canadian dollar.
 - (ii) A Group 2 currency must (a) have a spot price volatility level of less than or equal to 3%, (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and (c) have either: (I) a daily quoted spot rate by either: (A) a member of the Economic and Monetary Union, or (B) a participant of the Exchange Rate Mechanism II, or (II) a listed currency *futures contract* on a futures exchange.
 - (iii) A Group 3 currency must (a) have a spot price volatility of less than or equal to 10%, (b) have a daily quoted sport rate by a Schedule 1 *chartered bank*, and (c) be of a member country of the International Monetary Fund.
 - (iv) A Group 4 currency has no initial or ongoing qualification criteria.
- (3) Reference should be made to the applicable *Corporation requirements* for definitions and calculations.
- (4) *Monetary assets* and *monetary liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.
- (5) All *monetary assets* and *monetary liabilities* as well as the *Dealer Member's* own foreign currency future and forward commitments are to be reported on a trade date basis.
- (6) *Monetary [assets](#) and [monetary liabilities](#)* and the *Dealer Member's* own foreign currency future and forward commitments should be disclosed by maturity dates (i.e. less than or equal to two years and greater than two years).
- (7) Weighted value is calculated for *foreign exchange positions* with a *term to maturity* of over two *business days*. The weighted value is derived by taking the *term to maturity* of the *foreign exchange position* in calendar days divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
- (8) The total margin requirement is the aggregate of the spot risk margin requirement and term risk margin requirement. The spot risk margin requirement applies to all *monetary assets* and *monetary liabilities*, regardless of *term to maturity*. The term risk margin requirement applies to all *monetary assets* and *monetary liabilities* with a *term to maturity* of over two *business days*. The following summarizes the margin rates by currency group:

	Currency group			
	1	2	3	4
Spot risk margin rate	greater of: (i) 1.00% and (ii) spot risk surcharge rate ¹	greater of: (i) 3.00% and (ii) spot risk surcharge rate ¹	greater of: (i) 10.00% and (ii) spot risk surcharge rate ¹	25.00%
Term risk margin rate ²	1.00% to a maximum of 4.00%	3.00% to a maximum of 7.00%	5.00% to a maximum of 10.00%	12.50% to a maximum of 25.00%
Total maximum margin rates ¹	5.00%	10.00%	20.00%	50.00%

¹ The spot risk surcharge rate is determined using the approach set out in subsection 5462(2).

Form 1, Part II – Schedules ~~11~~13, 13A and ~~11A~~13B

Notes and instructions (Continued)

² If the weighting factor described in note 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.

- (9) *Dealer Members* may elect to exclude non-allowable *monetary assets* from the total *monetary assets* reported on Schedule ~~11~~13A or Schedule 13B for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a *Dealer Member* should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the *Dealer Member* unless it serves as an economic hedge against a *monetary liability*.
- (10) For *Dealer Members* offsetting a *foreign exchange position* denominated in a currency which has a currency futures contract which trades on a futures exchange, an alternative margin calculation may be used (refer to section 5467 of the ~~Corporation Investment Dealer and Partially Consolidated Rules~~). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule ~~11A~~13B.
- (11) Schedule 13A Line 7 and Schedule 13B Line 20 - The foreign exchange concentration charge applies only to currency groups 2 to 4.

Form 1, Part II – Schedule 14

Dealer Member's name

Date

Provider of capital concentration charge

Name of provider of capital

	Reference	C\$000's
A. Calculation of cash and undersecured loans with provider of capital		
1. Cash on deposit with <i>provider of capital</i>		_____
2. Cash, held in trust with <i>provider of capital</i> , ~~due to free credit ratio calculation~~		_____
3. Loans receivable - undersecured loans receivable from <i>provider of capital</i> relative to normal commercial terms		_____
4. Loans receivable - secured loans receivable from <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>		_____
5. Securities borrowed - securities borrowing agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms		_____
6. Securities borrowed - secured securities borrowing agreements with the <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>		_____
7. Resale agreements - agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms		_____
8. Commissions and fees receivable from the <i>provider of capital</i>		_____
9. Interest and dividends receivable from the <i>provider of capital</i>		_____
10. Other receivables from the <i>provider of capital</i>		_____
11. Loans payable - loans payable to the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
12. Securities lent - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
13. <i>Repurchase agreements</i> - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms		_____
Less:		
14. Bank overdrafts with the <i>provider of capital</i>		_____
15. Total cash deposits and undersecured loans with <i>provider of capital</i>		_____
B. Calculation of investments in securities issued by the provider of capital		
1. Investments in securities issued by the <i>provider of capital</i> (net of margin provided)		_____
Less:		
2. Loans payable to <i>provider of capital</i> that are linked to the assets above and are limited recourse		_____
3. Securities issued by the <i>provider of capital</i> sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above		_____
4. Total investment in securities issued by the <i>provider of capital</i>		_____

Form 1, Part II – Schedule 14 (Continued)

C. Calculation of financial statement capital provided by the provider of capital

1. *Regulatory financial statement capital provided by the provider of capital* (including pro-rata share of reserves and retained earnings)

D. Net allowable assets

1. Net allowable assets

E. Exposure test #1 - Dollar cap on cash deposits and undersecured loans

1. *Regulatory financial statement capital provided by the provider of capital*
2. Cash deposits and undersecured loans with *provider of capital*
3. *Regulatory financial statement capital* redeposited or lent back on an undersecured basis [Minimum of Section E, Line 1 and Section E, Line 2]
4. Exposure threshold
5. Capital requirement [Excess of Section E, Line 3 over Section E, Line 4]

Section C,
Line 1

Section A,
Line 15

\$50,000

F. Exposure test #2 - Overall cap on cash deposits and undersecured loans and investments

1. *Regulatory financial statement capital provided by the provider of capital*
2. Cash deposits and undersecured loans with *provider of capital*
3. Investments in securities issued by the *provider of capital*
4. Total cash deposits and undersecured loans and investments [Section F, Line 2 plus Section F, Line 3]
5. *Regulatory financial statement capital* redeposited or lent back on an undersecured basis or invested in securities issued by the *provider of capital* [Minimum of Section F, Line 1 and Section F, Line 4]

Section C,
Line 1

Section A,
Line 15

Section B,
Line 4

Less:

6. Capital charge incurred under Exposure Test #1
7. Net financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the *provider of capital* [Section F, Line 5 minus Section F, Line 6]
8. Exposure threshold being the greater of:
 - (a) Ten million dollars
 - (b) 20% of net allowable assets [20% of Section D, Line 1]
9. Capital requirement [Excess of Section F, Line 7 over Section F, Line 8]
10. Total *provider of capital* concentration charge [Section E, Line 5 plus Section F, Line 9]

Section E,
Line 5

\$10,000

B-19

Form 1, Part II – Schedule 14

Notes and instructions

- (1) The purpose of this schedule is to measure the exposure a *Dealer Member* has to each of its *providers of capital* (as defined below). As such is the case, a separate copy of this schedule should be completed for each *provider of capital* where the capital provided is in excess of \$10 million. This schedule should be completed on a settlement date basis.

- (2) The following terms have the meanings set out when used in this schedule:

“provider of capital”	An <i>individual</i> or entity and its affiliates that provides capital to a <i>Dealer Member</i> .
“Regulatory financial statement capital provided by the provider of capital”	The portion of the regulatory financial statement capital (calculated on Line 4 of Statement B) that has been provided to the <i>Dealer Member</i> by the <i>provider of capital</i> .

- (3) Calculation of cash and undersecured loans with provider of capital

(i)

(i) Section A, Line 2 – The cash held in trust to be reported on this line includes cash held at the *provider of capital* that is segregated due to the free credit ratio calculation or segregated by *Mutual Fund Dealer Members* due to the *Corporation's requirements*. Cash deposited in trust for RRSP and other similar accounts is excluded.

(ii) Section A, Line 3 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.

(iii) Section A, Line 4 – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the *provider of capital*.

(iv) Section A, Line 5 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable or the *market value* of the securities delivered as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.

(v) Section A, Line 6 – The amount to be reported on this line refers to the entire loan receivable balance or the *market value* of the securities delivered as collateral if the only collateral received for the loan is securities issued by the *provider of capital*.

(vi) Section A, Line 7 – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the security received) deficiency required under normal commercial terms. If the security received is a security issued by the *provider of capital* the collateral is assumed to have no value for the purposes of the above calculation.

(vii) Section A, Lines 8, 9 and 10 – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the *provider of capital*.

(viii) Section A, Line 11 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.

(ix) Section A, Line 12 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the *market value* of the securities received as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.

Form 1, Part II – Schedule 14
Notes and instructions (Continued)

(~~ix~~x) Section A, Line 13 – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the *repurchase agreement* and the amount of the loan payable that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.

(4) Calculation of investments in securities issued by the provider of capital

- (i) Section B, Line 1 – Include all investments in securities issued by the *provider of capital*.
- (ii) Section B, Line 2 – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.
- (iii) Section B, Line 3 – Include only those security positions that are otherwise eligible for offset pursuant to the *Corporation's* capital requirements.

(5) Calculation of financial statement capital provided by the provider of capital

- (i) Section C, Line 1 – Include the face amount of *subordinated debt* provided by the *provider of capital*, plus the book amount of equity capital provided by the *provider of capital* plus a pro-rata share of reserves and retained earnings.

Form 1, Part II – Schedule ~~12~~15

Dealer Member's name

Date

Margin on futures concentrations and deposits

Margin required

C\$000's

1.	Total open futures contract and short futures contract option positions	_____
2.	Concentration in individual accounts	_____
3.	Concentration in individual open futures contracts and short futures contract options	_____
4.	Deposits with <i>correspondent brokers</i>	_____
5.	Total [Sum of Lines 1 through 4]	_____

~~B-18~~B-20

Form 1, Part II – Schedule 1215

Notes and instructions

- (1) The purpose of Schedule 1215 is to ensure that there is adequate capital available at a *Dealer Member* to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with *correspondent brokers*.
- (2) The following terms have the meanings set out when used in this schedule:

“correspondent broker”	A broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the <i>Dealer Member</i> in a country other than Canada.
“maintenance margin requirement”	The margin requirement prescribed by the futures exchange on which the futures contract is entered into.
“long futures contract position”	Includes futures contracts underlying short put options on futures contracts.
“short futures contract position”	Includes futures contracts underlying short call options on futures contracts.

(3) **Line 1 – General margin provision (notes 3 and 4)**

Line 1 is used to establish a base level of capital that a *Dealer Member* is to provide when the *maintenance margin requirements* (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the *Dealer Member* and its clients.

The general margin provision calculation is on the *Dealer Member* and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related note below.

The margin required is 15% of the greater of:

- (i) the *maintenance margin requirements* of the total *long futures contract positions* for each type of futures contract carried for all *Dealer Member* and client accounts, or
- (ii) the *maintenance margin requirements* of the total *short futures contract positions* for each type of futures contract carried for all *Dealer Member* and client accounts.

Where a futures exchange calculates and publishes *maintenance margin requirements* on a daily basis, no margin is required under Line 1.

(4) **Line 1 – Positions excluded in determining the general margin provision**

The following positions may be excluded in determining the general margin provision:

- (i) Positions held in accounts of *acceptable institutions, acceptable counterparties* and *regulated entities*.
- (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client’s account at the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation.
- (iii) *Dealer Member* or individual client spread positions in *futures contracts* in the same product (including *futures contracts* in the same product with different delivery months) entered into on the same futures exchange. All other spread positions are treated as speculative positions for the purpose of this calculation.
- (iv) *Dealer Member* or individual client short option positions on futures contracts which are out-of-the-money by more than two *maintenance margin requirements*.
- (v) *Dealer Member* or individual client spread positions in the same futures contract options.

(5) **Line 2 – Concentration in individual accounts (notes 5, 6, and 9)**

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the *Dealer Member*) when the aggregate of the *maintenance margin requirements* for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the *Dealer Member’s* inventory is greater than 15% of the *Dealer Member’s* net allowable assets. The concentration risk is the excess amount of the aggregate of those *maintenance margin requirements* over 15% of the *Dealer Member’s* net

Form 1, Part II – Schedule 1215
Notes and instructions (Continued)

allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- (i) the aggregate of the *maintenance margin requirements* for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the *Dealer Member's* inventory, except for positions mentioned in note 9, minus
- (ii) 15% of the *Dealer Member's* net allowable assets.

Deductions from part (i) of the excess amount calculation above

Any excess margin in the *Dealer Member* account or client's account may be deducted from part (i) of the excess amount calculation. The excess margin must be based on the maintenance margin.

(6) Line 2 – Calculation of margin required for individual account concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

(7) Line 3 – Concentration in individual open futures contracts and short options on futures contract positions (notes 7 to 9)

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two *maintenance margin requirements* on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the *Dealer Member's* inventory and for all clients, is greater than 40% of the *Dealer Member's* net allowable assets. The concentration risk is the excess amount of those aggregate of two *maintenance margin requirements* over 40% of the *Dealer Member's* net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- (i) the aggregate of two *maintenance margin requirements* on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the *Dealer Member's* inventory and for all clients, except for positions mentioned in note 9, minus
- (ii) 40% of the *Dealer Member's* net allowable assets.

Deductions from part (i) of the excess amount calculation above

Any excess margin may be deducted from part (i) of the excess amount calculation, up to two *maintenance margin requirements* in the *Dealer Member* account or client's account (on a per client basis). The excess margin must be based on the maintenance margin.

(8) Line 3 – Calculation of margin required for contract concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

(9) Lines 2 and 3 – Positions to be excluded in calculating margin for account and contract concentrations in notes 6 and 8

- (i) Positions held in accounts of *acceptable institutions*, *acceptable counterparties* and *regulated entities*.
- (ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at

Form 1, Part II – Schedule ~~1215~~
Notes and instructions (Continued)

the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded.

- (iii) The following short option positions on futures contracts in a *Dealer Member* or client account, and provided that the pairings are acceptable for margin purposes by the relevant exchange:
- (a) short calls or puts which are out-of-the-money by more than two *maintenance margin requirements*,
 - (b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month,
 - (c) a futures contract paired with an in-the-money option,
 - (d) a short call (put) paired with a long in-the-money call (put),
 - (e) a short call (put) paired with a long (short) futures contract,
 - (f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call, and
 - (g) an out-of-the-money short put paired with an out-of-the-money long put.

(10) Line 4 – Margin on deposits with correspondent brokers

- (i) Where a *correspondent broker* owes assets (including cash, open trade equity and securities) to a *Dealer Member* exceeding 50% of the *Dealer Member's* net allowable assets, the excess amount must be provided as a charge in computing the *Dealer Member's* margin required.

The assets owing to the *Dealer Member* are the amount of deposits before reducing this amount by the *maintenance margin requirements* for all open positions.

- (ii) Where the net worth of the *correspondent broker* (as determined from its latest published audited financial statements) is less than or equal to \$50,000,000, the *Dealer Member* must provide the amount calculated in note 10(i). If net worth exceeds \$50,000,000, then no margin is required.
- (iii) Where a *Dealer Member* who operates its futures contracts and futures contract options business on a fully disclosed basis with a *correspondent broker*, no exemption from this requirement is permitted.

Form 1, Part II – Schedule 16

Mutual Fund Dealer Member's name

Date

Early warning tests - Mutual Fund Dealer Member (Level 1, 2 and 3 Dealers)

C\$000's

A. Liquidity test

Is early warning excess [Statement C, Line 11] less than 0?

Yes/No

B. Capital test

Is risk adjusted capital [Statement B, Line 31] less than 0?

Yes/No

C. Profitability test #1

Profit or loss for 3
months ending with
current month

C\$000's

Months

[see note 3]

1. Current month

2. Preceding month

3. 3rd month

4. Total [see note 4]

5. Risk adjusted capital [at Form 1 date]

Is loss on Line 4 greater than Line 5?

Yes/No

D. Profitability test #2

Profit or loss for 6
months ending with
current month

C\$000's

Months

[see note 3]

1. Current month

2. Preceding month

3. 3rd month

4. 4th month

5. 5th month

6. 6th month

7. Total [see note 5]

8. Risk adjusted capital [at Form 1 date]

Is loss on Line 7 greater than Line 8?

Yes/No

E. Frequency penalty

1. Has the Dealer Member triggered early warning at least 3 times in the past 12 months?

Yes/No

Form 1, Part II – Schedule 16

Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a Level 1, 2 or 3 Dealer heading into financial trouble and to impose restrictions and *sanctions* to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate early warning has been triggered.
- (2) Level 1, 2 or 3 Dealers are subject to the early warning tests on Schedule 16.
- (3) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal *subordinated debt*, bonuses, and income taxes (Statement D, Line 35 – Profit (loss) for early warning test). The “current month” figure must also reflect any audit adjustments made subsequent to the filing of the *monthly financial report* (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 regulatory financial filing system.
- (4) **Schedule 16, Section C – Profitability test #1** – If the total is a profit, no further calculation is required under this section. Enter a “No” answer.
- (5) **Schedule 16, Section D – Profitability test #2** – If the total is a profit, no further calculation is required under this sections. Enter a “No” answer.

Form 1, Part II – Schedule 1317

Dealer Member's name

Date

Early warning tests – Level 1
(for Investment Dealer Members and Level 4 Dealers)

C\$000's

A. Liquidity test

Is *early warning reserve* [Statement C, Line 1213] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 2931]

2. *Total margin required* [Statement B, Line 2426] multiplied by 5%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

		Profit or loss for 6 months ending with current month	Profit or loss for 6 months ending with preceding month
		C\$000's [see note 24]	C\$000's [see note 24]
	Months		
1.	Current month	_____	_____
2.	Preceding month	_____	_____
3.	3rd month	_____	_____
4.	4th month	_____	_____
5.	5th month	_____	_____
6.	6th month	_____	_____
7.	7th month	_____	_____
8.	Total [see note 35]	_____	_____
9.	Average multiplied by -1	_____	_____
10A.	<i>Risk adjusted capital</i> [at Form 1 date]	_____	_____
10B.	<i>Risk adjusted capital</i> [at preceding month end]	_____	_____
11A.	Line 10A divided by Line 9	_____	_____
11B.	Line 10B divided by Line 9	_____	_____

Are both of the following conditions true:

- Line 11A is greater than or equal to 3 but less than 6, and
- Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 2 and 4] multiplied by -6

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

Form 1, Part II – Schedule 1317A

Dealer Member's name

Date

Early warning tests – Level 2
(for Investment Dealer Members and Level 4 Dealers)

C\$000's

A. Liquidity test

Is *early warning excess* [Statement C, Line 1011] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 2931]

2. *Total margin required* [Statement B, Line 2426] multiplied by 2%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

Is Schedule 1317, Section C, Line 11A less than 3 and
Schedule 1317, Section C, Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 24 and 46] multiplied by -3

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

E. Profitability test #3

Profit or loss for 3
months ending with
current month

C\$000's

[see note 24]

Months

1. Current month

2. Preceding month

3. 3rd month

4. Total [see note 57]

5. *Risk adjusted capital* [at Form 1 date]

Is loss on Line 4 greater than Line 5?

Yes/No

F. Frequency penalty

1. Has the *Dealer Member* triggered early warning at least 3 times in the past 6 months or is *risk adjusted capital* less than 0?

Yes/No

2. Has the *Dealer Member* triggered liquidity or capital tests on Schedule 1317?

Yes/No

3. Has the *Dealer Member* triggered profitability tests on Schedule 1317?

Yes/No

4. Are Lines 2 and 3 both yes?

Yes/No

See notes and instructions

Janxxx-2023xxxx

Form 1, Part II – Schedules ~~1317~~ and ~~1317A~~

Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a *Dealer Member* heading into financial trouble and to impose restrictions and *sanctions* to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate early warning has been triggered.
- (2) [Investment Dealer Members and Level 4 Dealers are subject to the early warning tests on Schedule 17 and 17A.](#)
- (3) If the [Investment Dealer Member or Level 4 Dealer](#) is currently capital deficient (i.e. *risk adjusted capital* is negative), only Line 1 of Part F in Schedule ~~1317A~~ must be completed. Schedule ~~1317~~ and the remainder of Schedule ~~1317A~~ do not need to be completed.
- (24) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal *subordinated debt*, bonuses, and income taxes (Statement ~~ED~~, Line ~~3135~~ – Profit (loss) for early warning test). The “current month” figure must also reflect any audit adjustments made subsequent to the filing of the *monthly financial report* (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 ~~webfiling~~[regulatory financial filing](#) system ~~(SIRFF)~~.
- (35) [Schedule 17, Section C – Profitability test #1, Schedule 17A, Section C – Profitability test #1](#) – If either or both of the calculated totals is a profit, no further calculation is required under ~~Schedule 13, Section C – Profitability test #1 and Schedule 13A, Section C – Profitability test #1~~[these sections](#).
- (46) [Schedule 17, Section D – Profitability test #2 and Schedule 17A, Section D – Profitability test #2](#) – If the amount is a profit, no further calculation is required under ~~Schedule 13, Section D – Profitability test #2 and Schedule 13A, Section D – Profitability test #2~~[these sections](#).
- (57) [Schedule 17A, Section E – Profitability test #3](#) – If the total is a profit, no further calculation is required under ~~Schedule 13A, Section E – Profitability test #3~~[this section](#).

Form 1, Part II – Schedule ~~15~~18

Dealer Member's name

Date

Supplementary information

(Figures not subject to audit)

C\$000's

A. Segregation

1. Aggregate *market value* of securities required to be recalled from call loans

No.

B. Number of employees

1. Number of *employees* - registered
2. Number of *employees* - other

C. Number of trades executed during the month

1. Bonds
2. Money market
3. Equities – Listed Canadian
4. Equities – Foreign
5. Options
6. Futures contracts
7. Mutual funds
8. New issues
9. Other
- Total

D. Number of Dealing Representatives – Mutual Fund Dealer Members only

1. Number of representatives registered only in Quebec
2. Number of representatives registered outside Quebec
- Total

Notes and instructions:

~~(1)~~ —

- (1) Mutual Fund Dealer Members and Investment Dealer Members offering margin and engaging in call loan activities must report the aggregate market value of securities required to be recalled from call loans to meet segregation requirements.
- (2) All Dealer Members must report the number of employees and number of trades under Part B and C. Only Mutual Fund Dealer Members are required to report number of dealing representatives under Part D.
- (3) Part C - Trade tickets, not fills, for all markets must be counted.
- (4) Part D – The Mutual Fund Dealer Member should report the number of Approved Persons who are engaged in selling activities. This would include licensed assistants, trading partners/directors/officers registered to the Mutual Fund Dealer Member and sales representatives who have direct dealings with clients.

Form 1, Part II – Schedule 19

Dealer Member's name

Date

Assets under administration information

(Figures not subject to audit)

Current period

C\$000's

A. Mutual Fund Dealer Members

Nominee name client positions

All products

1. Assets under Administration (excluding Quebec)

2. Assets under Administration (total including Quebec)

Investment (Mutual) Funds only

3. Assets under Administration (excluding Quebec)

4. Assets under Administration (total including Quebec)

Client name positions

All products

5. Assets under Administration (excluding Quebec)

6. Assets under Administration (total including Quebec)

Investment (Mutual) Funds only

7. Assets under Administration (excluding Quebec)

8. Assets under Administration (total including Quebec)

Cash

9. Held for clients (excluding Quebec)

10. Held for clients (total including Quebec)

B. Investment Dealer Members

1. Market value of client name positions and outside holdings not included in client net equity

Form 1, Part II – Schedule 19

Notes and instructions

- (1) This schedule must be completed and filed by the *Dealer Member*, where applicable, in the *monthly financial report*.
- (2) **Part A Line 1** - Assets under administration for this line is the total market value of all nominee name *investment product* positions held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada, excluding Quebec.
- (3) **Part A Line 2** - Assets under administration for this line is the total market value of all nominee name *investment product* positions held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada.
- (4) **Part A Line 3** - Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada, excluding Quebec.
- (5) **Part A Line 4** - Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada.
- (6) **Part A Line 5** - Assets under administration for this line is the total market value of all client name *investment product* positions for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada, excluding Quebec.
- (7) **Part A Line 6** - Assets under administration for this line is the total market value of all client name *investment product* positions for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada.
- (8) **Part A Line 7** - Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada, excluding Quebec.
- (9) **Part A Line 8** - Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) for clients of the *Mutual Fund Dealer Member*, in all provinces of Canada.
- (10) **Part A Line 9** – *Mutual Fund Dealer Members* must report on this line, the total cash held for clients in all provinces of Canada, excluding Quebec.
- (11) **Part A Line 10** – *Mutual Fund Dealer Members* must report on this line, the total cash held for clients in all provinces of Canada.
- (12) **Part B Line 1** – The client net equity reported on Schedule 12 includes client assets held or controlled by the *Dealer Member* on the client's behalf but does not include client assets held outside of the control of the *Dealer Member* such as book-based client name assets. *Investment Dealer Members* must report on this line, total market value of all *investment products* reflected in the records they are required to maintain for *outside holdings*.
- (13) Assets of non-resident clients should also be included in the determination of assets under administration for this schedule as the *Dealer Member* is providing service to the clients, whether it be advice, periodic client statements, or other back-office support.

Proposed “serious misconduct” definition Comparison Table (DC Rule section 3702(1))

Activity listed under the definition of “serious misconduct”	Current Requirements				Proposed DC Rule 3700
	Required to be investigated and reported under the current IDPC Requirements?	Required to be reported under the current MFD Requirements?	Included in the “misconduct” term under the current IDPC Complaint Requirements?	Included as matters to be dealt with in the current MFD Complaint Requirements?	Included in the definition of “serious misconduct” under proposed DC Rule 3700?
material breach of client personal information under the Dealer Member’s control	No	Yes	Yes	Yes	No ³¹
theft	Yes	Yes	Yes	Yes	Yes
fraud	Yes	Yes	Yes	Yes	Yes
misappropriation or misuse of funds or securities	Yes	Yes	Yes	Yes	Yes
forgery	Yes	Yes	Yes	Yes	Yes
money laundering	Yes	Yes	No	Yes	Yes
insider trading	Yes	Yes	No	Yes	Yes
misrepresentations	Yes	Yes	Yes	Yes	Yes
unauthorized trading, including discretionary trading contrary to sub-section 3221(1)	Yes	Yes	Yes	Yes	Yes
excessive improper trading	No	No	No	No	Yes

³¹ Material breaches of client information will be reportable outside of the definition of serious misconduct, similar to cybersecurity incidents.

engaging in Dealer Member related activities outside the Dealer Member	No	Yes	Yes	Yes	Yes
engaging in activities outside the Dealer Member contrary to section 2554	No	Yes	No	Yes	Yes
addressing conflicts of interest in a manner that is contrary to section 3111 or section 3112	No	No	No	No	Yes
engaging in personal financial dealings contrary to section 3115	No	Yes	Yes ³²	Yes	Yes
materially violating the suitability determination obligation in Rule 3400	No	No	Yes ³³	Yes	Yes
breach of client confidentiality	No	Yes	No	Yes	Yes
Any other instance of material non-compliance with CIRO requirements, securities laws or any applicable laws	No	No	No	No	Yes

³² Referred to as “inappropriate financial dealings” under the IDPC Complaint Requirements.

³³ Referred to as “unsuitable investments” under the IDPC Complaint Requirements.

Impact Analysis of the Phase 5 Proposed DC Rules

Impact Assessment Table

In the impact assessment table below, we list:

- the major policy elements of the Phase 5 Proposed DC Rules,
- a description of the intended policy benefits of each element, and
- an assessment of its impact on clients, investment dealers, mutual fund dealers, and CIRO itself.

Conclusions

Outsourcing and service arrangements

We concluded that the proposed consolidation of outsourcing and service arrangement requirements would result in generally more consistent regulatory requirements for these types of arrangements. We assessed the impact of these changes to be generally neutral to positive for clients, Dealer Members and CIRO staff. Overall, we believe the proposed changes will allow Dealer Members to maintain their existing arrangements while enhancing the flexibility to expand arrangements between dealer types.

Reporting and handling of complaints, internal investigations and other reportable matters

While proposed DC Rule 3700 introduces some negative impacts on Dealer Members, mostly with respect to the potential for increased reporting and changes to the scope of existing policies and procedures, these impacts are outweighed by the positive impacts on investors, clients, Dealer Members, participants and CIRO. Our view is that these changes will result in a more consistent reporting, investigation and complaint handling regime, which will ultimately ensure that clients have a consistent experience in respect of how their complaints are handled, that Dealer Members will have consistent understanding of industry standards regarding how to handle complaints and investigations, and regulators will be able to more accurately track matters that lead to complaints and investigations at both the dealer and industry-wide level.

Recordkeeping and client reporting

We concluded that the proposed harmonization of recordkeeping and client reporting requirements would enhance the consistency of regulatory requirements and Dealer practices, mitigate client confusion and regulatory arbitrage, and level the playing field for both Dealer categories. We assessed the impact of these changes to be generally neutral to positive for clients, Dealer Members and CIRO staff. We believe these benefits outweigh the potential costs associated with system changes for a subset of Dealer Members, or the negative impact at a very limited subset of clients who do not wish for their dealer to rely on the harmonized rule carve-outs.

Financial standards and financial solvency reporting

We concluded that the proposed harmonization of financial standards requirements would result in generally more consistent regulatory requirements that also recognize simpler dealer business models. We assessed the impact of these changes to be generally neutral to positive for clients, investment dealers and CIRO staff. We assess the impact of these changes to be generally negative for mutual fund dealers due to the number of new requirements and potential capital implications of adopting a more stringent capital formula. We believe these negative impacts will be less impactful to mutual fund dealers with a simple business model and more impactful for certain subsets of mutual fund dealers

such as Level 4 mutual fund dealers. Overall, we believe the benefits of consistent financial solvency standards outweigh the potential costs associated with system changes and capital implications at a subset of Dealer Members.

Client asset use and custody

We concluded that the proposed client asset and custody rules would result in generally more consistent regulatory requirements that also recognize different dealer business model client asset segregation requirements. We assessed the impact of these changes to be generally neutral to positive for clients, Dealer Members and CRO staff. Investment dealers may have some relatively minor negative impacts resulting from proposed internal control requirements regarding the safeguarding of cash and treatment of client free credit segregation deficiencies.

Overall Assessment

We have assessed the impact of the changes being introduced as part of the Phase 5 Proposed DC Rules as having a neutral to positive impact overall.

We believe Phase 5 Proposed DC Rules would have strong positive impacts on clients and CRO Staff.

While there may be some negative impacts to mutual fund dealers, and in more limited instances to investment dealers, many of these impacts are short-term, as they relate to requirements to develop new policies, procedures and internal systems. Once developed, the existence of harmonized industry infrastructure and regulatory expectations will be net positive for the industry as a whole.

The changes to the capital formula for mutual fund dealers may be significant for some dealers, which offsets the strong positive impacts to other stakeholders. As such our overall assessment of the impact of the Phase 5 Proposed DC Rules is neutral to positive.

Cost Estimate

We do not know the dollar magnitude of the collective impacts of the Phase 5 Proposed DC Rules, and we cannot determine it without detailed stakeholder feedback. For example, the harmonization of certain client reporting requirements may require changes to a subset of Dealer systems and procedures. The scale of such changes is dependant on many factors, including the level of sophistication of the Dealer Member and their proprietary or vendor systems, whether it is the Dealer Member or their carrying broker who is discharging the reporting task, whether the Dealer Member holds or controls client assets, and how broadly or narrowly the Dealer Member has interpreted their reporting responsibility.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
Additional services proposed to be offered by mutual fund dealers					
<i>Allow mutual fund dealers to offer margin accounts under certain conditions</i>	Brings client leveraging into regulatory framework and allows level-playing field between dealer types	<i>Positive</i> – Clients benefit from new account offering and consistency in margin requirements between dealer types	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Mutual fund dealers benefit from ability to offer similar services to investment dealers if complying with the same regulatory requirements and financial standards	<i>Neutral</i> – We do not anticipate any impact on CIRI.
Rule interpretation and definitions					
<i>Adopt a DC Rule version of MFD Rule 1.1.1 with regard to certain Approved Persons of mutual fund dealers engaging in securities related business as an employee of a chartered bank or credit union, where permitted by applicable legislation</i>	Retain the possible business structure arrangements as per MFD Rule 1.1.1	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Retains existing possible business structure arrangements as per MFD Rule 1.1.1.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Introduction of monthly financial report definition</i>	Provides clarity that monthly regulatory filing is not as comprehensive as annual Form 1 filing	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Provides clarity that monthly regulatory filing is less onerous than annual regulatory filing.	<i>Positive</i> – CIRI staff who monitor compliance will have a consistent definition.
Outsourcing and service arrangements					
<i>Adopt IDPC Rule requirements for Type 1 to 4 introducing / carrying broker arrangements</i>	Preserve requirements for existing arrangements	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt MFD Rule requirements (with minor modifications) related to introducing / carrying broker arrangements between two mutual fund dealers as a Type 5 introducing / carrying arrangement</i>	Preserve requirements for existing arrangements while ensuring a level playing field for investment dealers and mutual fund dealers.	<i>Positive</i> – Both introducing broker and carrying broker are responsible for clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor negative</i> – Minor modifications in arrangement requirements may impact a subset of mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Preserve capability for mutual fund dealer to enter into multiple arrangements but restrict ability for multiple Type 2 introducing / carrying arrangements</i>	Preserve requirements for existing arrangements while ensuring a level playing field for investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral to negative</i> – Investment dealers with more than one Type 2 introducing / carrying arrangement will need to request an exemption.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Introduce ability for CIRI staff to provide exemptions related to introducing / carrying broker requirements</i>	Ability to be flexible where dealers have unique business models that may not be specifically considered in rule requirements	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Positive</i> – Investment dealers benefit from more efficient and timely process for exemptions.	<i>Positive</i> – Mutual fund dealers benefit from more efficient and timely process for exemptions.	<i>Neutral to Positive</i> – Creates more efficient exemption process.
<i>Adopt IDPC Rules related to other permitted outsourcing and back office arrangements, for all dealers</i>	Ensure a level playing field for investment dealers and mutual fund dealers	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Additional back office arrangements available for mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Adopt MFD Rule requirements for service arrangements, for all dealers</i>	Ensure a level playing field for investment dealers and mutual fund dealers	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Minor Negative to Neutral</i> – New rule requirement for investment dealers, which codifies general business practices.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Positive</i> – Consistency in requirements among dealers and ability to enforce service

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
					arrangement requirements.
Continuing education requirements					
<i>Adopt and maintain the existing separate Continuing Education regimes as an interim measure (a separate CE Harmonization project is currently in progress).</i>	CIRI is waiting to provide only one set of substantive CE changes to all industry participants to minimize impact of harmonized changes.	<i>Neutral</i> – No material changes for clients at this time.	<i>Neutral</i> – No material changes for investment dealers at this time.	<i>Neutral</i> – No change for mutual fund dealers at this time.	<i>Neutral</i> – No material changes CIRI Staff for at this time.
Reporting and Handling of Complaints, Internal Investigations and other Reportable Matters					
<i>Adopt the definition of “compensation” that is set out in the MFD Rules</i>	Ensure clarity and consistency regarding what constitutes compensation	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No significant change for investment dealers.	<i>Neutral</i> – No change for mutual fund dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have a consistent definition.
<i>Introduce definition of “complaint”</i>	Ensure a consistent definition that includes employees, and both verbal and written complaints	<i>Minor Positive</i> – Clients’ recourses will benefit from employees being included as potential subjects of a complaint in the definition	<i>Minor Negative</i> – Employees being included as potential subjects of a complaint in the definition is new for investment dealers and widens the scope of complaints that must be managed by the Dealer Member and are reportable to CIRI.	<i>Minor Negative</i> – Employees being included as potential subjects of a complaint in the definition is new for mutual fund dealers and widens the scope of complaints that must be managed by the Dealer Member and are reportable to CIRI.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have a consistent definition of complaint.
<i>Adopt the definition of “cybersecurity incident” that is set out in the IDPC Rules</i>	Ensure consistency regarding what constitutes a cybersecurity incident	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Mutual fund dealers previously did not have to report cybersecurity incidents.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have a consistent definition and reporting will be

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
					harmonized across Dealer Members
<i>Introduce definition of “internal dispute resolution service”</i>	Avoid confusion with respect to OBSI’s ombudsman service.	<i>Minor Positive</i> – Reduces any possible client confusion between the two distinct resolution processes.	<i>Neutral</i> – No significant change for investment dealers.	<i>Neutral</i> – No significant change for mutual fund dealers.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce definition of “non-reportable complaint”</i>	Replace the definition of a “service complaint” in the MFD Rules and IDPC Rules in order to provide added clarity.	<i>Neutral</i> – No significant change for clients.	<i>Minor Positive</i> – The definition more clearly sets out which matters are unlikely to raise regulatory concerns and therefore are not reportable to CIRI.	<i>Minor Positive</i> – The definition more clearly sets out which matters are unlikely to raise regulatory concerns and therefore are not reportable to CIRI.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have a clear and consistent definition.
<i>Introduce definitions of “serious misconduct” and “serious client-related misconduct”</i>	Provide harmonized and clearer definitions regarding certain reportable events.	<i>Minor Positive</i> – Promotes client protection by providing further clarity regarding types of reportable events.	<i>Neutral</i> – Increased reporting is possible; however, this is mitigated by the increased clarity and consistency that may prevent unnecessary over-reporting.	<i>Neutral</i> – Increased reporting is possible; however, this is mitigated by the increased clarity and consistency that may prevent unnecessary over-reporting.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have a clear and consistent definition.
<i>Introduce requirement to establish policies and procedures that require employees to report certain matters to the Dealer Member.</i>	Provide clarity and consistency with prescribed reportable matters.	<i>Positive</i> – Promotes client protection by providing further clarity regarding types of reportable events.	<i>Minor Negative</i> – Addition of employees into current policies and procedures represents a new burden.	<i>Minor Negative</i> – Addition of employees into current policies and procedures represents a new burden.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent and clearer requirements.
<i>Introduce requirement that Approved Persons and employees must report to Dealer Members, certain matters pertaining to Approved Persons</i>	Provide harmonized and enhanced specificity regarding circumstances that Approved Persons and	<i>Minor Positive</i> – Promotes client protection by expanding the types of reportable events.	<i>Minor Negative</i> – Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Neutral</i> – The requirements were included in the MFD Rules and thus do not represent a new burden.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>including, among others, certain licensing issues, declaration of bankruptcy, and outstanding garnishments.</i>	employees must report to Dealer Members.				and clearer requirements.
<i>Not require disclosure of an investigation if such disclosure is prohibited by the securities laws, applicable laws, or requirements or policies of any regulatory organization or SRO, professional licensing, credentialling or registration body</i>	Prevent conflicting obligations with other relevant legal or regulatory requirements.	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No significant change for investment dealers.	<i>Neutral</i> – No significant change for mutual fund dealers.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce requirements for Dealer Members to report serious misconduct matters to CIRI.</i>	Provide harmonized and enhanced specificity regarding circumstances that Dealer Members must report to CIRI.	<i>Minor Positive</i> – Promotes client protection by providing further clarity regarding types of reportable events.	<i>Minor Negative</i> – Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Negative</i> – Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent and clearer requirements.
<i>Introduce requirement that Dealer Members must report to CIRI certain matters pertaining to itself and Approved Persons including, among others, certain licensing issues, declaration of bankruptcy, and outstanding garnishments.</i>	Provide harmonized and enhanced specificity regarding circumstances that Dealer Members must report to CIRI.	<i>Minor Positive</i> – Promotes client protection by providing further clarity regarding types of reportable events.	<i>Minor Negative</i> – Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Neutral</i> – The requirements were included in the MFD Rules and thus do not represent a new burden.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent and clearer requirements.
<i>Replace requirement for Dealer Members to report amounts over certain thresholds with a</i>	Ensure that CIRI is informed of matters resulting in contextually	<i>Minor Positive</i> – Promotes client protection by providing further	<i>Neutral</i> – The less prescriptive approach regarding substantial client payouts may result in	<i>Neutral</i> – The less prescriptive approach regarding substantial client payouts may result in	<i>Minor Positive</i> – CIRI staff will receive more relevant reporting.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>requirement to report any substantial compensation paid to a client to CIRI.</i>	substantial compensation paid to clients. This may result in smaller or larger amounts being reported, depending on the significance to the investor.	clarity and more contextually relevant types of reportable information.	increased or decreased reporting, as context will be considered under this approach.	increased or decreased reporting, as context will be considered under this approach.	
<i>Introduce requirement that Dealer Members must report to CIRI any time an Approved Person, employee or the Dealer Member is the subject of any proceeding or disciplinary action alleging contravention of any applicable laws concerning to Dealer Member related activities.</i>	Provide harmonized and enhanced specificity regarding circumstances that Dealer Members must report to CIRI	<i>Minor Positive –</i> Promotes client protection by expanding the types of reportable events.	<i>Minor Negative –</i> Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Negative –</i> Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Positive –</i> CIRI staff who monitor compliance will have consistent and clearer requirements.
<i>Remove the dollar thresholds for reporting internal disciplinary actions to CIRI.</i>	Standardize requirements by applying reporting requirement to all internal disciplinary actions involving allegations of serious misconduct.	<i>Minor Positive –</i> Promotes client protection by removing a minimum threshold regulatory reporting, thus giving regulatory visibility into outcome of material internal investigations	<i>Minor Negative –</i> Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Negative –</i> Increased reporting burden is possible; however, this is mitigated by the increased clarity and consistency of reportable events.	<i>Minor Positive –</i> Enhances CIRI's line of sight into material investigations.
<i>Adopt requirement for Dealer Members to report the outcomes of client complaints alleging serious misconduct.</i>	Ensure reporting that provides important information related to investor protection, compliance tracking and governance.	<i>Positive –</i> Promotes client protection by increasing the regulatory supervision in respect of the result	<i>Minor Negative –</i> Additional regulatory reporting burden that is not in IDPC Rules.	<i>Neutral –</i> No change for mutual fund dealers.	<i>Minor Positive –</i> CIRI staff will have more comprehensive information of outcomes of

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
		of serious misconduct.			serious misconduct complaints.
<i>Adopt requirement that Dealer Members include a detailed description of the investigation and its results when reporting the results of an internal investigation to CIRI.</i>	Provide improved insight into Dealer Members' processes and outcomes in respect of matters significant enough to warrant an internal investigation.	<i>Minor Positive</i> – Promotes client protection by providing further clarity regarding client complaint outcomes.	<i>Neutral</i> – Recording additional details in the description of the investigation should not pose significant additional burden.	<i>Neutral</i> – No change for mutual fund dealers.	<i>Minor Positive</i> – CIRI staff will have additional information in respect of processes and outcomes.
<i>Adopt prescribed timeline requirements for Dealer Members reporting to CIRI in the DC Rules</i>	Provide clarity by specifying timelines in the DC Rules rather than guidance.	<i>Neutral</i> – No change for clients.	<i>Neutral</i> – Clearer rule timeline requirements and no significant change to existing practice.	<i>Neutral</i> – No significant change to existing practice.	<i>Neutral</i> – No significant change to existing practice.
<i>Introduce requirement that Dealer Members report to CIRI any material breach of client information that is reportable under applicable privacy legislation.</i>	Ensure that such issues are tracked and addressed.	<i>Positive</i> – Promotes client protection by tracking client information breach incidents.	<i>Minor Negative</i> – In order to manage the increased regulatory burden, reporting to CIRI would be in the form and in compliance with the timelines required by applicable privacy legislation.	<i>Minor Negative</i> – In order to manage the increased regulatory burden, reporting to CIRI would be in the form and in compliance with the timelines required by applicable privacy legislation.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have additional information.
<i>Introduce requirement that Dealer Members must maintain current records relating to reportable matters under proposed DC Rule subsections 3711-3712.</i>	Provide clarity by explicitly including the requirement in the DC Rules.	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No significant change for investment dealers.	<i>Neutral</i> – No significant change for mutual fund dealers.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Structure the basis for triggering an internal investigation on the concept of “serious misconduct”.</i>	Eliminate potential inconsistencies between reporting, complaint handling, and internal investigations.	<i>Minor Positive</i> – Promote client protection by triggering internal investigations on the basis of	<i>Minor Negative</i> – Potentially will trigger more internal investigations, particularly with respect to employees.	<i>Minor Negative</i> – Potentially will trigger more internal investigations, particularly with respect to employees.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
		potential serious misconduct.			
<i>Introduce a prescriptive approach to specifically list the triggers for an internal investigation, rather than the general requirement.</i>	Ensure clarity that an investigation must be launched when the Dealer Member becomes aware that an Approved Person, former Approved Person or employee appears to have engaged in serious misconduct.	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – Increased clarity and consistency of events triggering an internal investigation.	<i>Neutral</i> – Increased clarity and consistency of events triggering an internal investigation.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Adopt the existing IDPC Rules provisions regarding records of an internal investigation, however with more detail regarding the issues, findings, investigatory process, evidence, conclusions and recommendations in the internal investigation records. Also clarify that Dealer Members must provide these records to CIRI upon request.</i>	Ensure that the documentation evidencing such investigation forms a complete record for review and compliance purposes.	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No significant change for investment dealers.	<i>Minor Negative</i> – Increased record keeping requirements for mutual fund dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Introduce an exception that indicates that a Dealer Member, an Approved Person or an employee are not required to comply the reporting requirements under Rule 3700 for any matter reported to the CIRI under Universal</i>	Avoid duplicative reporting and burden.	<i>Neutral</i> – No change for clients.	<i>Minor Positive</i> – Avoids duplicative reporting.	<i>Neutral</i> – Not applicable to mutual fund dealers.	<i>Neutral</i> – No significant change for CIRI staff.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Market Integrity Rules 10.16, 10.17 and 10.18.</i>					
<i>Expand restriction from entering into settlement agreements unless prior written consent of the Dealer Member has been obtained to employees</i>	Ensure consistency given the expansion of the scope of DC Rule 3700 to include employees.	<i>Minor Positive</i> – Promotes client protection by requiring Dealer Member consent.	<i>Neutral</i> – The expansion to employees should not represent a significant increased burden and will increase Dealer Member visibility on any such settlements.	<i>Neutral</i> – The expansion to employees should not represent a significant increased burden and will increase Dealer Member visibility on any such settlements.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Prohibit confidentiality or similar restrictions on a client pursuant to a release. Also, prohibit Dealer Members from preventing clients, via a release agreement or otherwise, from communicating or sharing information with securities regulatory authorities, SROs or other enforcement authorities.</i>	Enhance client protection by prohibiting communication restrictions pursuant to releases.	<i>Positive</i> – Promotes client protection by prohibiting communication restrictions pursuant to releases.	<i>Neutral</i> – No significant change for investment dealers.	<i>Neutral</i> – No significant change for mutual fund dealers.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Harmonization of requirements regarding complaint policies and procedures relating to institutional clients.</i>	Ensure a level playing field by harmonizing the provision to both investment dealers and mutual fund dealers regarding complaint policies and procedures relating to institutional clients	<i>Neutral</i> – No significant change for clients.	<i>Neutral</i> – No significant change for investment dealers.	<i>Minor Positive</i> – Mutual fund dealers will be able to categorize and treat institutional client complaints accordingly.	<i>Neutral</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Dealer Members only need acknowledge a verbal institutional client complaint alleging serious client-related misconduct where a preliminary investigation indicates that</i>	Allow for different standards for institutional client vs retail client complaint handling requirements.	<i>Neutral</i> – No significant change impact for clients.	<i>Minor Positive</i> - Allow Dealer Members to assess and handle institutional client complaints accordingly.	<i>Minor Positive</i> - Allow Dealer Members to assess and handle institutional client complaints accordingly.	<i>Neutral</i> – No significant change for CIRI staff.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>the allegation may have merit.</i>					
<i>Introduce requirement that Dealer Members document and respond to each retail client complaint in a manner that a reasonable investor considers effective, fair and expeditious.</i>	Allow for different standards for institutional client vs retail client complaint handling requirements.	<i>Positive</i> – Centers the expectation in reasonable client expectations.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce clarifying requirement that Dealer Members provide a written response to any written retail client complaint, and any retail client complaint alleging serious misconduct.</i>	Addresses the types of complaints that raise regulatory concern, while permitting Dealer Members to manage verbal complaints that do not allege serious misconduct in a more expeditious manner.	<i>Neutral</i> – Reflects current practice.	<i>Neutral</i> – Provides more clarity regarding complaint response requirements.	<i>Neutral</i> – Provides more clarity regarding complaint response requirements.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce requirements that Dealer Members must commit adequate resources to staff managing complaints and establish clear roles and responsibilities for managing complaints.</i>	Harmonize and include these requirements in the DC Rules for the purpose of rule consistency and clarity.	<i>Neutral</i> – No specific effect as it codifies current practice.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce a requirement that an individual who is the subject of a client complaint cannot handle the client complaint.</i>	Harmonize and include these requirements in the DC Rules for the purpose of rule consistency and clarity.	<i>Neutral</i> – No specific effect as it codifies current practice.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Require a Dealer Member to provide drafting assistance to clients who request it.</i>	Harmonize and include these requirements in the DC Rules for the purpose of rule consistency and clarity.	<i>Neutral</i> – No specific effect as it codifies current practice.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Withdraw the requirement in the IDPC Rules that Dealer Members must handle complaints in a balanced manner considering the interests of the client, Dealer Member, Approved Person and employee.</i>	Remove provision that is inconsistent with the Dealer Member's and Approved Person's obligation to put the client's interests first when managing conflicts of interest.	<i>Minor Positive</i> – Clarifies obligations with respect to client protection and complaint responsiveness, reflecting current regulatory requirements.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce requirement that, when a recurrent complaint issue is detected, Dealer Members must ascertain the scope and severity of any client detriment and consider whether it is fair and reasonable to proactively conduct any redress or remediation.</i>	Codify best practices and ensure that Dealer Members must consider broader client impact with respect to complaints they have received and when deciding whether the appropriate resolution must be broader than rectifying an individual complaint.	<i>Positive</i> – Promotes client protection and complaint responsiveness.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce requirement that acknowledgement and substantive response letters be written in plain language and provided to the complainant in a format readily accessible</i>	Ensure client comprehension of complaint responses.	<i>Positive</i> – Promotes client protection and complaint responsiveness.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>and understandable by that complainant.</i>					
<i>Introduce requirement that substantive response must indicate that clients may report suspected serious misconduct to CIRI, and that CIRI will assess whether any disciplinary action is warranted.</i>	Ensure client comprehension of possible recourses.	<i>Positive</i> – Promotes client protection by ensuring clients are informed of their options in respect of complaints.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Adopt the IDPC Rules requirement that Dealer Members provide a substantive response to a client complaint within 90 days (Dealer Members are still subject to any other relevant provincial timeline requirements).</i>	Standardize practice by applying the IDPC Rules provision to both investment dealers and mutual fund dealers.	<i>Neutral</i> – Reflects current practice.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce prescribed time limits on a Dealer Member's internal dispute resolution process.</i>	Introduces a time limit to ensure that complaints are resolved more expeditiously.	<i>Positive</i> – Imposes a reasonable timeline on internal dispute resolution processes lead to a resolution in a timely manner.	<i>Minor Negative</i> – Introduces a new time limitation for internal dispute resolution processes where no limit existed previously.	<i>Minor Negative</i> – Introduces a new time limitation for internal dispute resolution processes where no limit existed previously.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Introduce acceptable practices for communicating internal dispute resolution services and OBSI services.</i>	Clarify and standardize disclosure to clients regarding dispute resolution service options.	<i>Positive</i> – Promotes consistent client disclosure, protection and complaint responsiveness.	<i>Neutral</i> – No significant change for investment dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely reflect current practice.	<i>Neutral</i> – No significant change for CIRI staff.
<i>Introduce prohibition against the use of any misleading terms, including the term "ombudsman" or</i>	Clarify and standardize disclosure to clients regarding	<i>Positive</i> – Enhances client understanding of the complaint handling processes.	<i>Neutral</i> – No significant change for investment dealers as it should largely	<i>Neutral</i> – No significant change for mutual fund dealers as it should largely	<i>Neutral</i> – No significant change for CIRI staff.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>similar qualifiers, in referring to a Dealer Member's, or a Dealer Member's affiliate's, internal dispute resolution service.</i>	dispute resolution service options.		reflect and complement current practice.	reflect and complement current practice.	
Recordkeeping and client reporting					
<i>Introduce the “automatic plan transactions” concept and corresponding definition.</i>	Ensure clear, consistent and uniform application of client reporting requirements regarding automatic plan transactions.	<i>Minor positive</i> – Clients will benefit from the enhanced consistency and uniformity of reporting across Dealer Members.	<i>Minor positive</i> – Investment dealers will benefit from the enhanced clarity of the reporting requirements regarding automatic plan transactions.	<i>Minor positive</i> – Mutual fund dealers will benefit from the enhanced clarity of the reporting requirements regarding automatic plan transactions.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices.
<i>Harmonize the delineation between client holdings in Dealer Member control and client's outside holdings, as well as the definition for “outside holdings”.</i>	Ensure clear, consistent and uniform application of reporting requirements regarding client holdings, so as to mitigate client confusion or misleading reporting.	<i>Positive</i> – Clients will benefit from enhanced clarity and uniformity of reporting across Dealer Members with regards to the reportable client positions in Dealer Member control and client assets outside of Dealer Member control.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Minor negative</i> – A subset of mutual fund dealers who offer both nominee and client name accounts [less than thirty mutual fund dealers (Level 4)] may have to adjust their systems (proprietary or vendor systems) to ensure conformity with the proposed client's holding delineation.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and client protection.
<i>Clarify and harmonize the terminology along Rule 3800 regarding Dealer Member activity i.e. replace “trade”, “buy”, “sell” with the term ‘transactions’, where appropriate.</i>	Ensure DC Rule terminology is inclusive and representative of the broad spectrum of Dealer Member business and uniform	<i>Neutral</i> – No specific effect as proposal should codify current practices.	<i>Neutral</i> – No significant change for investment dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate	<i>Neutral</i> – No significant change for mutual fund dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
	across all Dealer Member categories.		whether system changes are needed as a result and provide feedback.	whether system changes are needed as a result and provide feedback.	
<i>Clarify and harmonize the terminology regarding Dealer Member products i.e. replace “securities”, “precious metals bullion”, “derivatives”, “property”, “investments” and “assets”, with the term “investment products”.</i>	Ensure DC Rules terminology that is inclusive and representative of the broad spectrum of Dealer Member business and used uniformly across all Dealer Member categories.	<i>Neutral</i> – No specific effect as proposal should codify current practice.	<i>Neutral</i> – No significant change for investment dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes are needed as a result and provide feedback.	<i>Neutral</i> – No significant change for mutual fund dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes are needed as a result and provide feedback.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the overarching Dealer Member recordkeeping obligation.</i>	Ensure uniformity of the principles of recordkeeping for both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual dealers as proposal reflects current rules.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Combine and harmonize the recordkeeping requirements of both rules around the minimum mandatory records a Dealer Member is required to maintain.</i>	Ensure adequate, consistent and uniform recordkeeping at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and recordkeeping expectations.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal should reflect current recordkeeping expectations and practices.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the records retention requirements.</i>	Ensure uniformity in the standards of records retention for both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Combine and harmonize the requirements around the internal controls of</i>	Ensure adequate, consistent and uniform internal controls and	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment	<i>Neutral</i> – No significant change for mutual fund	<i>Minor positive</i> – CIRI staff will benefit from one

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>recordkeeping and access to records.</i>	accessibility to records requirements at investment dealers and mutual fund dealers.		dealers as proposal reflects current rules and practices.	dealers as proposal reflects current rules and practices.	set of clear and uniform requirements.
<i>Harmonize the specific requirements regarding transactions blotters.</i>	Ensure adequate, consistent and uniform records of Dealer Member activity at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules and practices.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the specific requirements regarding the general ledger of accounts.</i>	Ensure adequate, consistent and uniform records of Dealer Member business at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules and practices.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the specific requirements regarding the itemized client ledger accounts.</i>	Ensure adequate, consistent and uniform records of client account activity at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules and practices, within their business model.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize by extending to mutual fund dealers the specific requirements regarding the secondary or subsidiary records.</i>	Ensure adequate, consistent and uniform secondary records at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as we believe proposal reflects current practices, within their business model.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize by extending to mutual fund dealers the specific requirements regarding records of client</i>	Ensure adequate, consistent and uniform records of Dealer Member and client	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as we believe proposal reflects current	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>and dealer positions in securities, precious metals bullion and similar investment products.</i>	positions at both investment dealers and mutual fund dealers.			practices, within their business model.	uniform requirements.
<i>Harmonize by extending to mutual fund dealers the specific requirements regarding account transfer records.</i>	Ensure adequate, consistent and uniform records of account transfers at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers as we believe proposal reflects current practices, within their business model.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Bring forward the requirements regarding derivative products and margin call records.</i>	Maintain the status quo in consideration of the broad spectrum of Dealer Member business.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because their current model precludes engagement in derivative products and margin lending.	<i>Neutral</i> – we do not anticipate any impact on CIRI.
<i>Harmonize the requirements regarding the general information that a Dealer Member is required to include in the statements and reports to clients.</i>	Ensure meaningful, consistent and uniform disclosure of the general information in the statements and reports to clients at both investment dealers and mutual fund dealers	<i>Neutral</i> – No specific effect, as we believe Dealer Members already disclose this information to clients.	<i>Neutral</i> – No significant change for investment dealers as we believe proposal reflects current practices.	<i>Neutral</i> – No significant change for mutual fund dealers as we believe proposal reflects current rules and practices.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize and clarify the Dealer Member obligation for providing account statements and outside holdings reports to clients in a separate or combined format, but not in a consolidated format.</i>	Ensure meaningful, adequate (which includes operational flexibility), consistent and uniform reporting practices at both investment dealers and mutual fund dealers, while mitigating client confusion with regard	<i>Positive</i> – Clients will benefit directly from consistent and uniform reporting practices that provide adequate and meaningful disclosure of information relevant	<i>Positive</i> – Investment dealers will have the flexibility of maintaining the status quo or moving to combined reporting, subject to the conditions set out in the rules.	<i>Neutral to negative</i> – A subset of mutual fund dealers who offer both nominee and client name accounts [less than thirty mutual fund dealers (Level 4)] may have to adjust their systems (proprietary or vendor systems) to ensure that their periodic statements clearly	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements, enhanced consistency in Dealer Member practices and

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
	to the information that pertains to client positions held at the Dealer Member and those outside of the Dealer Member and therefore the applicable investor protection coverage.	to client's decision-making.		distinguish between nominee name and book-based client name positions, to conform to the proposed rules.	adequate client protection.
<i>Maintain the existing daily/monthly/quarterly reporting frequency for investment dealers, and the quarterly reporting frequency for mutual fund dealers. As an exception, mutual fund dealers who offer margin accounts will be subject to both the monthly and quarterly reporting requirements.</i>	Maintain the status quo for the time being, with regards to mutual funds dealers, considering the significant system changes needed of having to switch to the higher standard of monthly reporting. As an exception, uphold the new category of mutual fund dealers with margin accounts to the same reporting standard of investment dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules. Those mutual fund dealers who transition into the new category of mutual fund dealers with margin accounts will have to comply with the higher standard of reporting, similar to investment dealers.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the requirements for including in the account statement/ outside holding report the opening and closing cash balances.</i>	Ensure meaningful, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Positive</i> – Clients will benefit from the enhanced consistency and uniformity of reporting practices.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral to negative</i> – A subset of mutual fund dealers who currently do not disclose such balance may need to make system adjustments (proprietary or vendor systems) to conform with the proposal.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements, enhanced consistency in Dealer Member practices and adequate client protection.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Harmonize and clarify the transaction information that must be reported in the account statement.</i>	Ensure meaningful, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Positive</i> – clients will benefit from the enhanced consistency and uniformity of reporting practices.	<i>Neutral to negative</i> – A subset of investment dealers may need to make system adjustments (proprietary or vendor systems) to conform with the proposal.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and adequate client protection.
<i>Harmonize the requirements for including in the account statement/ outside holding report the total market value of client cash and positions at the start and the end of reporting period.</i>	Ensure meaningful, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Positive</i> – clients will benefit from the enhanced consistency and uniformity of reporting practices.	<i>Neutral to negative</i> – A subset of investment dealers who currently do not disclose such value may need to make system adjustments (proprietary or vendor systems) to conform with the proposal.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and adequate client protection.
<i>Clarify how position cost information for each individual product is to be presented in the account statement/outside holding report.</i>	Ensure meaningful, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as we believe proposal reflects current rules and practices.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize and clarify in the account statement/outside holding report the disclosure with regards to any applicable Investor Protection Fund coverage, or any other investor protection coverage approved</i>	Ensure meaningful, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Positive</i> – Clients will benefit from the enhanced consistency and uniformity of reporting practices.	<i>Neutral to minor negative</i> – A subset of investment dealers may need to make system adjustments (proprietary or vendor systems) to ensure proper disclosure of the prescribed coverage.	<i>Neutral to minor negative</i> – A subset of mutual fund dealers may need to make system adjustments (proprietary or vendor systems) to ensure proper disclosure of the prescribed coverage.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>recognized under securities laws, and where applicable, the lack of such coverage with regards to the reported client holdings.</i>					adequate client protection.
<i>Harmonize by removing the requirement, currently unique to the IDPC Rules, for a Dealer to report non-arm's length transactions in the account statements to clients, therefore align with the MFD Rules and NI 31-103.</i>	Ensure rules that are efficient and proportional. Enhanced conflicts of interest requirements combined with the Dealer responsibility for disclosing the conflicts of interest in a timely manner, including at account opening and transaction execution, offers a more balanced, yet impactful, approach for addressing conflicts of interest.	<i>Neutral to negative</i> – A subset of clients of investment dealers may prefer that their dealer continues to flag non-arms' length transactions in their account statements and disagree with the proposed removal of the disclosure requirement.	<i>Neutral to positive</i> – A subset of investment dealers may choose to take advantage of the disclosure removal from account statements and the associated burden reduction.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules.	<i>Positive</i> – CIRI staff will benefit from one set of clear, uniform and proportional requirements and enhanced consistency in Dealer Member practices.
<i>Harmonize by extending to mutual fund dealers the institutional client exemptions for outside holding reports and position cost information.</i>	Maintain rule proportionality and ensure a level playing field across all Dealer Members.	<i>Neutral to minor negative</i> – A limited subset of clients of mutual fund dealers may not wish to be treated as institutional clients for reporting purposes.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Positive</i> – Mutual fund dealers will benefit from the enhanced uniformity of reporting requirements and burden reduction where they opt to take advantage of this rule carve-out.	<i>Positive</i> – CIRI staff will benefit from one set of clear, uniform and proportional requirements and enhanced consistency in Dealer Member practices.
<i>Codify monthly reporting exemption with regards to automatic plans consistent</i>	Maintain rule proportionality and ensure a level playing	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment	<i>Neutral</i> – No significant change for mutual fund dealers given that they are	<i>Minor positive</i> – CIRI staff will benefit from one

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>with existing Dealer Member practices and NI 31-103.</i>	field across all Dealer Members.		dealers as proposal reflects current practices.	currently not subject to monthly reporting requirements.	set of clear and uniform requirements.
<i>Bring forward the account statements reporting requirements regarding derivative products.</i>	Maintain the status quo in consideration of the broad spectrum of Dealer Member business.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because their current model precludes engagement in derivative products.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize by adopting the requirement that a Dealer Member sends the first performance report within 24-months after the Dealer Member makes the first trade or transfer for the client. Here we adopt the MFD Rule language, which is aligned with NI 31-103 and produces the least impact on either Dealer Member category.</i>	Ensure uniform reporting at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as they can choose to maintain their status quo.	<i>Neutral</i> – No significant change for mutual fund dealers as proposal reflects current rules.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the formula for calculating the ‘total market value change since account opening’.</i>	Enhance simplicity and ensure uniform reporting at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect as proposal should codify current practice.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers as we believe proposal reflects current practices; however, these dealers must evaluate whether system changes (proprietary or vendor systems) are needed to conform with this proposal.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
<i>Clarify that where a dealer provides the clients with a performance report for a period shorter than 12-</i>	Ensure non-misleading, consistent and uniform reporting practices at both	<i>Neutral</i> – No specific effect as proposal should	<i>Neutral</i> – No significant change for investment	<i>Neutral</i> – No significant change for mutual fund	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>months, the required performance information must not be calculated on an annualized basis.</i>	investment dealers and mutual fund dealers.	codify current practice.	dealers as proposal should reflect current practices.	dealers as proposal reflects current rules.	uniform requirements.
<i>Repeal rule provisions dealing with performance reports issued for the period ending December 31, 2016.</i>	Ensure rules remain coherent, by removing provisions that are no longer relevant.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No specific effect.
<i>Harmonize by extending to mutual fund dealers the institutional client exemptions for performance reports.</i>	Maintain rule proportionality and ensure a level playing field across all Dealer Members.	<i>Neutral to minor negative</i> – A limited subset of clients of mutual fund dealers may not wish to be treated as institutional clients for reporting purposes.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Positive</i> – Mutual fund dealers will benefit from the enhanced uniformity of reporting requirements and burden reduction where they opt to take advantage of this rule carve-out.	<i>Positive</i> – CIRI staff will benefit from one set of clear, uniform and proportional requirements and enhanced consistency in Dealer Member practices.
<i>Bring forward the performance reporting requirements regarding derivative products.</i>	Maintain the status quo in consideration of the broad spectrum of Dealer Member business.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because their current model precludes engagement in derivative products.	<i>Neutral</i> – No specific effect.
<i>Harmonize by extending to mutual fund dealers the standard that the required fees and charges information (including for non-securities investment products) may be excluded from the report only if reliable data cannot be obtained.</i>	Ensure non-misleading, consistent and uniform reporting practices at both investment dealers and mutual fund dealers.	<i>Positive</i> – Clients will benefit from the enhanced consistency and uniformity of reporting requirements that emphasize cost transparency.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules and practices.	<i>Neutral to minor negative</i> – A subset of mutual fund dealers may need to make system adjustments (proprietary or vendor systems) to ensure they conform with the proposal. Because the MFDA has interpreted the concept of “securities” broadly, we anticipate the impact of this	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and adequate client protection.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
				provision on mutual fund dealers to be limited.	
<i>Harmonize by extending to mutual fund dealers the institutional client exemptions for fee/charges reports.</i>	Maintain rule proportionality and ensure a level playing field across all Dealer Members.	<i>Neutral to minor negative</i> – A limited subset of clients of mutual fund dealers may not wish to be treated as institutional clients for reporting purposes.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Positive</i> – Mutual fund dealers will benefit from the enhanced uniformity of reporting requirements and burden reduction where they opt to take advantage of this rule carve-out.	<i>Positive</i> – CIRO staff will benefit from one set of clear, uniform and proportional requirements and enhanced consistency in Dealer Member practices.
<i>Bring forward the fee/charge reporting requirements regarding derivative products.</i>	Maintain the status quo in consideration of the broad spectrum of Dealer Member business.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because their current model precludes engagement in derivative products.	<i>Neutral</i> – No specific effect.
<i>Harmonize under a more principles based and inclusive language, whereby a dealer must provide clients with a written confirmation of transactions in “investment products” and other property for the client’s account.</i>	Ensure comprehensive, consistent and uniform confirmations at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect as proposal should codify current practice.	<i>Neutral</i> – No significant change for investment dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes are needed as a result and provide feedback.	<i>Neutral</i> – No significant change for mutual fund dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes are needed as a result and provide feedback.	<i>Minor positive</i> – CIRO staff will benefit from one set of clear and uniform requirements.
<i>Harmonize the requirements by clarifying the minimum information that a Dealer Member must include in the trade confirmation.</i>	Ensure comprehensive, consistent and uniform confirmation practices at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect as proposal should codify current practice.	<i>Neutral</i> – No significant change for investment dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes	<i>Neutral</i> – No significant change for mutual fund dealers; while we believe such changes are consistent with current reporting expectations and industry practices, Dealer Members are encouraged to evaluate whether system changes are	<i>Minor positive</i> – CIRO staff will benefit from one set of clear and uniform requirements.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
			are needed as a result and provide feedback.	needed as a result and provide feedback.	
<i>Harmonize by adopting requirements that are inclusive of the broader spectrum of Dealer Member products (e.g. more complex debt instruments, such as callable debt, variable rate debt and mortgage-backed securities).</i>	Ensure comprehensive, consistent and uniform confirmation practices at both investment dealers and mutual fund dealers.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral to minor negative</i> – Mutual fund dealers mostly engage in traditional debt products. A limited subset of mutual fund dealers who engage in more complex products may need to evaluate whether system adjustments (proprietary or vendor systems) are needed to conform with the proposal.	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform requirements and enhanced consistency in Dealer Member practices and adequate client protection.
<i>Bring forward and harmonize across all Dealer Member categories the confirmation exemptions, subject to the conditions contemplated in the rules, for transactions in:</i> <i>managed accounts and in DAP/RAP accounts,</i> <i>in mutual fund securities where the confirmation is sent by the manager of the mutual fund,</i> <i>automatic plans, with the exception of the confirmation for the initial transaction.</i>	Maintain rule proportionality and ensure a level playing field across all Dealer Members.	<i>Neutral to minor negative</i> – A limited subset of clients of investment dealers, with client name mutual fund positions, may want to maintain the status quo of receiving confirmations from their Dealer Member rather than the mutual fund.	<i>Neutral to positive</i> – A subset of investment dealers with client name mutual fund positions, who opt to take advantage of the rule carve-out where the confirmation is sent by the mutual fund, will benefit from the resulting burden reduction.	<i>Neutral to positive</i> – A subset of mutual fund dealers will benefit from the burden reduction where they opt to take advantage of the institutional client rule carve-out.	<i>Positive</i> – CIRI staff will benefit from one set of clear, uniform and proportional requirements and enhanced consistency in Dealer Member practices.
<i>Bring forward and harmonize across all Dealer Members the exemptions from providing the following information in the</i>	Maintain rule proportionality and ensure a level playing field across all Dealer Members.	<i>Neutral to minor negative</i> – A limited subset of clients of mutual fund dealers may not wish to be	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Positive</i> – Mutual fund dealers will benefit from the enhanced uniformity of reporting requirements and burden reduction where	<i>Positive</i> – CIRI staff will benefit from one set of clear, uniform and proportional

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
confirmation to clients, subject to the conditions contemplated in the rules: • fee/charges information where the confirmation is sent to an institutional client for transactions in over-the-counter products, other than debt securities, • non-arm's length transactions in investment products of an issuer, whose name is sufficiently similar with that of the Dealer to indicate a related or affiliated relationship.		treated as institutional clients for reporting purposes.		they opt to take advantage of this rule carve-out.	requirements and enhanced consistency in Dealer Member practices.
Bring forward the confirmation requirements regarding derivative products.	Maintain the status quo in consideration of the broad spectrum of Dealer Member business.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because their current model precludes engagement in derivative products.	<i>Neutral</i> – No specific effect.
Harmonize by extending to mutual fund dealers the explicit requirement that the use of earlier cost and performance data is exercised equally for similar clients.	Ensure uniform and fair treatment of clients.	<i>Neutral</i> – No specific effect as proposal should codify current practice.	<i>Neutral</i> – No significant change for investment dealers as proposal reflects current rules.	<i>Neutral</i> – No significant change for mutual fund dealers because we do not believe to have introduced any new requirement for mutual fund dealers which they do not already adhere to under the fair dealing standards of current MFD Rules.	<i>Minor positive</i> – CIRI staff will benefit from one set of clear and uniform requirements.
Harmonize by adding rule clarity and flexibility with regards to the delivery of statements and reports to	Ensure adequate flexibility and uniformity of the reporting	<i>Positive</i> – Clients will benefit from more efficient, consistent and	<i>Positive</i> – Investment dealers will have the flexibility of maintaining the status quo or moving to	<i>Neutral to negative</i> – A subset of mutual fund dealers who offer both nominee and client name	<i>Positive</i> – CIRI staff will benefit from one set of clear and uniform

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>clients in a way that does not result in misleading reporting.</i>	requirements, while maintaining the client protection principles.	uniform requirements that emphasize measures to prevent misleading reporting.	combined reporting, subject to the conditions set out in the rules.	accounts [less than thirty mutual fund dealers (Level 4)] may have to adjust their systems (proprietary or vendor systems) to ensure that their periodic statements clearly distinguish between nominee name and book-based client name positions to conform to the proposed rules.	requirements, enhanced consistency in Dealer Member practices and adequate client protection.
<i>Introduce electronic delivery as the default method for delivering the required disclosures and documents to clients under Rule 3800.</i>	Codify industry best practices and align our rules with evolving global practices, regulatory standards and technological advancements	<i>Neutral to Positive</i> – No impact on clients who already utilize e-delivery. Easier switch to e-delivery for other clients who currently rely on paper delivery.	<i>Negative to Positive:</i> Overall positive impact. In the short-term a subset of Dealers may incur costs associated with the transition to the default e-delivery format, including updating client's electronic contact information.	<i>Negative to Positive:</i> Overall positive impact. In the short-term a subset of Dealers may incur costs associated with the transition to the default e-delivery format, including updating client's electronic contact information.	<i>Positive:</i> CIRI will benefit from rules that remain relevant as the market evolves.
<i>Bring forward the reporting requirements that are specific to those mutual fund dealers who are also registered as exempt market dealers and scholarship plan dealers.</i>	Maintain the status quo for this Dealer Member category and stay consistent with securities laws.	<i>Neutral</i> – No specific effect.	<i>Neutral</i> – No specific effect for investment dealers, as proposal does not apply to them.	<i>Neutral</i> – No significant change for mutual funds dealers as proposal reflects current rules, within their business model.	<i>Neutral</i> – No specific effect.
General Dealer Member financial standards – minimum capital, early warning, financial reports and auditors					
<i>Assign responsibilities for financial solvency requirements to the CFO and UDP for all Dealer Members.</i>	Ensure a consistent level of financial subject matter expertise and ensure CFO contribution to Form 1. Align with proposed Phase 4 requirement for	<i>Minor positive</i> – Clients will indirectly benefit from increased financial subject expertise and oversight.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Mutual fund dealers will need to commit resources to satisfy CFO requirement.	<i>Positive</i> – Consistent financial subject expertise will facilitate discussions with Dealer Members

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
	mutual fund dealers to have a qualified CFO.				on financial matters.
<i>Maintain the minimum capital dollar value requirements for all Dealer Members.</i>	Ensure appropriate minimum capital requirements to address business model risk by maintaining IDPC Rule and MFD Rule minimum capital dollar value requirements.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral</i> – No change for mutual fund dealers, unless they opt to offer margin lending.	<i>Neutral</i> – We do not anticipate any impact on CIRO.
<i>Harmonize the CIRO early warning test failure notification requirements.</i>	Standardize and ensure a level playing field by applying IDPC Rules requirement to notify CIRO of early warning test failures to both investment dealers and mutual fund dealers.	<i>Positive</i> – Ensures consistent minimum capital monitoring related requirement applies to all Dealer Members.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Mutual fund dealers will be subject to heightened monitoring requirement.	<i>Neutral</i> – CIRO staff will be able to react on more timely basis to early warning triggers.
<i>Harmonize the weekly current capital calculation for investment dealers and Level 4 mutual fund dealers.</i>	Ensure appropriate risk-based requirements for dealers with similar risk profiles by applying IDPC Rules weekly current capital calculation requirement to both investment dealers and Level 4 mutual fund dealers.	<i>Positive</i> – Provides a consistent capital monitoring standard for Dealer Members with similar risk profiles.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Level 4 mutual fund dealers will be subject to more frequent capital calculation requirement.	<i>Minor Positive</i> – CIRO staff who monitor compliance will have consistent requirements for Dealer Members with similar risk profiles.
<i>Introduce modified twice monthly current capital</i>	Ensure appropriate risk-based requirements for Level 1 to 3 mutual fund	<i>Positive</i> – Requires a higher capital monitoring standard for Level 1 to 3	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Level 1 to 3 mutual fund dealers will be subject to more frequent	<i>Neutral</i> – We do not anticipate any impact on CIRO.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>calculation for Level 1 to 3 mutual fund dealers.</i>	dealers by applying modified MFD Rule requirement, increasing the capital calculation frequency to twice monthly.	mutual fund dealers.		capital calculation requirement.	
<i>Harmonize the capital calculation option for well capitalized Dealer Members to apply more stringent capital calculations.</i>	Standardize and ensure a level playing field by applying IDPC Rules capital calculation option to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – No change for investment dealers.	<i>Positive</i> – Mutual fund dealers benefit from the same simplified reporting option as investment dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Harmonize the capital requirement that guarantees be a fixed or determinable value unless given to a related company.</i>	Standardize and ensure a level playing field by applying IDPC Rules guarantee requirement to both investment dealers and mutual fund dealers.	<i>Positive</i> – Provides a consistent prudential standard for the treatment of guarantee exposures.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – New requirement for mutual fund dealers but in practice unlikely to have material impact.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Harmonize the early warning framework (early warning tests, early warning levels and sanctions) for investment dealers and Level 4 mutual fund dealers.</i>	Ensure appropriate risk-based early warning framework for dealers with similar risk profiles by applying IDPC Rules early warning framework to both investment dealers and Level 4 mutual fund dealers.	<i>Positive</i> – Provides a consistent early warning prudential framework for Dealer Members with similar risk profiles.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Level 4 mutual fund dealers will be subject to more comprehensive early warning framework.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements for Dealer Members with similar risk profiles.
<i>Maintain the mutual fund dealer early warning framework (early warning tests, early warning level</i>	Ensure appropriate risk-based early warning framework for Level 1 to 3 mutual	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor Negative</i> – New requirements of a twice monthly early warning test	<i>Neutral</i> – CIRI staff who monitor compliance will be able to identify

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>and sanctions) for Level 1 to 3 mutual fund dealers, modified by an increased twice monthly calculation frequency for the early warning tests and the inclusion of a 6-month profitability test.</i>	fund dealers by applying modified MFD Rule requirements.			calculation frequency and a 6 month profitability test.	financial solvency issues on more timely basis.
<i>Harmonize the early warning related requirement regarding reimbursing CIRI for costs.</i>	Standardize and ensure a level playing field by adopting the IDPC Rules early warning cost reimbursement requirement to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor positive</i> – Mutual fund dealers may benefit from the IDPC Rules provision and the reasonableness standard.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Harmonize requirement allowing Dealer Member to request a hearing panel review in response to a CIRI written notice of the order imposing additional early warning restrictions.</i>	Standardize and ensure a level playing field by applying IDPC Rules hearing panel review request to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – No change for investment dealers.	<i>Positive</i> – Mutual fund dealers will benefit from this new ability to request a hearing panel review when CIRI imposes additional restrictions on the Dealer Member.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Maintain different financial report filing deadlines for mutual fund dealers and investment dealers</i>	Avoid potential burden mutual fund dealers may face in obtaining audit services within short timelines.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – No change for mutual fund dealers, unless they opt to offer margin lending.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize approval process and criteria for panel auditors that can perform audits of Dealer Members.</i>	Standardize the process and criteria for determining approval of panel auditors by applying	<i>Positive</i> – Clients will benefit from consistent auditor approval process across Dealer	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Negative</i> – Mutual fund dealers may need to switch to an auditor that meets the more stringent criteria. Our analysis indicates this may	<i>Positive</i> – CIRI staff will benefit generally from consistent requirements and

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
	IDPC Rules methodology to both investment dealers and mutual fund dealers.	Members and the IDPC Rule qualification criteria for panel auditors, which are more stringent than the MFD Rule criteria.		primarily impact Level 1 to 3 mutual fund dealers.	from flexibility of the IDPC methodology when applied to all Dealer Members.
<i>Adopt requirement from MFD Rules that the Dealer Member notify CIRI of any change in the Dealer Member's auditor and/or audit engagement partner.</i>	Standardize and ensure a level playing field by applying MFD Rules auditor change notification requirement to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers as requirement aligns with current practice.	<i>Neutral</i> – No change for mutual fund dealers.	<i>Positive</i> – CIRI staff may benefit from codified requirement.
<i>Introduce modified auditor records requirements that maintain the mutual fund dealer audit working papers retention period and the investment dealer requirement for the auditor to make the working papers available.</i>	Ensure consistent audit requirements for auditors of both mutual fund dealers and investment dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Harmonize prescribed audit procedures for confirmations, reconciliations and other tests, modified by clarifying that certain audit procedures apply only to positions held or controlled by the Dealer Member.</i>	Standardize and ensure a level playing field by applying IDPC Rules prescribed audit procedures for confirmations, reconciliations and other tests to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt requirement allowing the Dealer Member's auditor the option to send second requests for audit confirmations.</i>	Standardize and ensure a level playing field by applying IDPC Rules optional second positive audit confirmation requests to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Mutual fund dealer auditors will benefit from the adoption of optional second requests for audit confirmations, reducing regulatory burden.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Introduce modified auditor procedures that maintain the requirement for the mutual fund dealer auditor and investment dealer auditor to perform the procedures identified in separate “agreed upon procedures” reports customized to the dealer’s prudential requirements regarding insurance and segregation.</i>	Ensure appropriate audit requirements. Adopt modified provisions that maintain MFD Rule “agreed upon procedures” report for mutual fund dealers and IDPC Rule “agreed upon procedures” report for investment dealers and qualifying Level 4 mutual fund dealers offering margin accounts.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers. If a Level 4 mutual fund dealer is approved to offer margin accounts to clients, its auditor will need to comply with the same “agreed upon procedures” report as an investment dealer auditor.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
General Dealer Member financial standards – disclosure, internal controls, calculations and professional opinions					
<i>Adopt requirement to provide summary statement of financial position to clients when requested.</i>	Ensure consistent and level playing field for investment dealers and mutual fund dealers.	<i>Positive</i> – Ensures clients of both dealer types are provided with important disclosure regarding the financial health of their Dealer Member.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor negative</i> – Mutual fund dealers will be required to provide additional disclosures to clients which may require system updates.	<i>Neutral</i> – We do not anticipate any impact on CIRI.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt requirement to provide list of current Executives and Directors to clients when requested.</i>	Ensure consistent and level playing field for investment dealers and mutual fund dealers.	<i>Positive</i> – Ensures clients of both dealer types are provided with important disclosure regarding the key personnel of their Dealer Member.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor negative</i> – Mutual fund dealers will be required to provide additional disclosures to clients which may require system updates.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Adopt requirement to disclose financial statements separately from those of affiliates and holding company.</i>	Ensure consistent and level playing field for investment dealers and mutual fund dealers.	<i>Positive</i> – Ensures clients of both dealer types are provided with the most precise financial disclosure of their Dealer Member.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor negative</i> – Mutual fund dealers that publish consolidated financial statements may require additional disclosures.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize requirements for internal control standards.</i>	Ensure consistent requirements for investment dealers and mutual fund dealers on the standards for setting appropriate internal controls.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – No impact anticipated to mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Adopt requirement for pricing internal controls.</i>	Ensure consistent and level playing field for investment dealers and mutual fund dealers.	<i>Positive</i> – Clients benefit from more consistent pricing review of their assets.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor negative</i> – Mutual fund dealers may need update policies and procedures related to pricing.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Adopt requirement for calculation of fixed income prices on a yield basis.</i>	Ensure consistent and level playing field for investment dealers and mutual fund dealers that engage in fixed income market making.	<i>Neutral</i> – No impact anticipated to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – No impact anticipated to mutual fund dealers which generally do not engage in offering fixed income quotes.	<i>Neutral</i> – We do not anticipate any impact on CIRI.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt requirement for professional opinions.</i>	Ensure consistent requirements for investment dealers and mutual fund dealers who engage in the practice.	<i>Neutral</i> – No impact anticipated to clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – No impact anticipated to mutual fund dealers which generally do not engage in this practice.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
Client asset use and custody					
<i>Harmonize segregation and related internal control requirements while maintaining the requirements applicable to the investment dealer margin lending model and the mutual fund dealer full segregation model.</i>	Ensure appropriate risk-based requirements that recognize different Dealer Member business models.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – No impact on most mutual fund dealers. Provides operational flexibility for Level 4 mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize requirements regarding custody and related internal control requirements.</i>	Standardize requirements and ensure a level playing field by applying IDPC Rules custody and related internal control requirements to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Mutual fund dealers will be subject to the same custodial requirements as an investment dealer, which may result in a net capital benefit due to the treatment of mutual fund custodial reconciliations and custody at an acceptable securities location with no written custodial agreement.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Clarify investment products requiring segregation, custody, safekeeping and safeguarding.</i>	Ensure harmonization and clarity for investment dealers and mutual fund dealers with respect to specified investment products requiring segregation,	<i>Neutral</i> – No change for clients.	<i>Neutral</i> – Provides investment dealers with clarification that the scope of the protection of asset requirements extend beyond securities and precious metals bullion to include other like assets.	<i>Neutral</i> – Provides mutual fund dealers with clarification that the scope of the protection of asset requirements extend beyond securities and precious metals bullion to include other like assets.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent and clear requirements and reduced

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
	custody, safekeeping and safeguarding (securities, precious metals bullion and other like assets).				administrative burden.
<i>Harmonize client free credit balance requirements while maintaining the requirements applicable to the investment dealer allowable use model and the mutual fund dealer full cash segregation model. Level 4 mutual fund dealers that choose to use client free credits in their business would be subject to same requirements as investment dealers.</i>	Ensure appropriate risk-based requirements that recognize different dealer business models.	<i>Neutral</i> – No change for clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – No impact for most mutual fund dealers. Provides operational flexibility for Level 4 mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize requirements regarding client free credit balance segregation deficiencies by applying the MFD Rule requirements to both investment dealers and mutual fund dealers regarding the required action to resolve a client free credit balance segregation deficiency and corresponding capital charge for any unresolved deficiency amount.</i>	Standardize requirements and ensure a level playing field by applying MFD Rules requirements for cash segregation deficiencies to both investment dealers and mutual fund dealers.	<i>Positive</i> – Provides a consistent prudential standard for the treatment of client cash segregated in trust or eligible securities.	<i>Minor negative</i> – Investment dealers may require new internal control policies and procedures.	<i>Neutral</i> – The requirements are substantially similar to existing mutual fund dealer treatment of cash segregation deficiencies.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Adopt MFD Rule requirements regarding designated trust account</i>	Standardize requirements and ensure a level playing field by applying MFD	<i>Positive</i> – Provides a consistent prudential standard for the treatment of	<i>Minor negative</i> – Investment dealers may require new internal control policies and procedures and	<i>Neutral</i> – The requirements are substantially similar to existing mutual fund dealer	<i>Minor Positive</i> – CIRI staff who monitor compliance

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>notification to financial institutions.</i>	Rule designated trust account notification requirements to both investment dealers and mutual fund dealers.	client funds held in trust.	updated client trust account notifications to existing financial institutions.	designated trust account notification requirements.	will have consistent requirements.
<i>Apply safekeeping requirements to all Dealer Members engaging in such activities.</i>	Ensure a level playing field by applying IDPC Rules safekeeping requirements to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Positive</i> – Mutual fund dealers will benefit from the transparency and clarity of prescriptive safekeeping requirements.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Apply internal control requirements for safeguarding securities, precious metals bullion and other like assets to all Dealer Members engaging in specified activities.</i>	Standardize and ensure a level playing field by applying IDPC Rules safeguarding requirements to both investment dealers and mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Minor Positive</i> – Mutual fund dealers will benefit from the transparency and clarity of additional prescriptive safeguarding requirements not currently in scope.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Extend safeguarding access restrictions for the physical handling of securities to also include precious metals bullion and other like assets.</i>	Ensure consistent compliance requirements for assets that may require physical handling.	<i>Neutral</i> – No change for clients.	<i>Neutral</i> – No significant impact on investment dealers according to current scope of operations.	<i>Neutral</i> – No significant impact on mutual fund dealers according to their current scope of operations.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent and clear requirements.
<i>Harmonize requirements regarding safeguarding cash.</i>	Standardize and ensure a level playing field by applying general MFD Rules cash safeguarding requirements to both investment dealers and mutual fund dealers.	<i>Neutral</i> – No significant change for clients.	<i>Minor negative</i> – Investment dealers may require new internal control policies and procedures.	<i>Neutral</i> – The requirements are substantially similar to existing mutual fund dealer safeguarding cash requirements.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Harmonize requirements regarding the payment and disclosure of interest</i>	Standardize and ensure a level playing field by not including the payment of interest disclosure requirements in MFD Rule 3.3.2(e).	<i>Minor negative</i> – No mandatory disclosure regarding the payment of interest and prior written notice of rate changes on client cash held in trust.	<i>Neutral</i> – No change for investment dealers.	<i>Positive</i> – Mutual fund dealers may set interest rates in response to market conditions in a timely manner and earn a spread in the same manner as investment dealers.	<i>Minor Positive</i> – CIRI staff who monitor compliance will have consistent requirements.
<i>Harmonize insurance coverage requirements.</i>	Ensure insurance coverage is appropriate for Dealer Member's size, client assets and business activities.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – A subset of mutual fund dealers may be impacted by an increase in coverage requirements.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Adopt insurance claim notification requirements.</i>	Ensure a level playing field for investment dealers and mutual fund dealers.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Represents a new requirement for mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize mail insurance requirements to require notification to CIRI if Dealer Member is not using mail.</i>	Ensure a level playing field for investment dealers and mutual fund dealers.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – Reduced administrative burden from elimination of exemption request requirement.	<i>Minor negative</i> – Mutual fund dealers that do not have mail insurance must inform CIRI.	<i>Neutral</i> – Reduced administrative burden from elimination of exemption requirement.
Financing arrangements					
<i>Apply repurchase and reverse repurchase trading requirements to all Dealer Members engaging in such activities.</i>	Ensure a level playing field for investment dealers and mutual fund dealers and minimize industry confusion.	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Apply cash and securities loan, repurchase and reverse repurchase</i>	Ensure a level playing field for investment dealers and mutual	<i>Neutral</i> – We do not anticipate any impact to clients.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>agreement transaction requirements to all Dealer Members engaging in such activities.</i>	fund dealers, to the extent of activities they are permitted to carry out, and minimize, industry confusion.				
Regulatory financial report (DC Form 1)					
<i>Adopt consolidated Form 1 for investment dealers and mutual fund dealers with modifications to address differences in business models.</i>	Reduce regulatory arbitrage by applying harmonized standards for risk exposures while considering differences in business models and activities.	<i>Neutral</i> – No impact anticipated for clients.	<i>Minor negative</i> – Investment dealers may need to update policies and procedures or systems to address revised statements and schedules.	<i>Negative</i> – Mutual fund dealers may need to update policies and procedures or systems to address additional statements and schedules.	<i>Positive</i> – CIRI staff is expected to benefit from reduced administrative burden and more efficient monitoring of Dealer Members' financial solvency.
<i>Adopt net-allowable asset capital formula approach for both investment dealers and mutual fund dealers.</i>	Reduce regulatory arbitrage and reduce financial solvency risk by applying harmonized standards for determining risk adjusted capital.	<i>Positive</i> – Clients of mutual fund dealers benefit from better investor protection resulting from reduced financial solvency risk.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – A subset of mutual fund dealers with long-term liabilities may have significant capital impacts. A phased implementation approach is proposed.	<i>Positive</i> – CIRI staff is expected to benefit from more efficient monitoring of Dealer Members' financial solvency.
<i>Adopt early warning excess and early warning reserve calculations with modification to adjust for provider of capital charges related to other allowable assets.</i>	Reduce regulatory arbitrage and reduce financial solvency risk by applying harmonized standards for determining risk adjusted capital.	<i>Neutral</i> – No impact anticipated for clients.	<i>Minor positive</i> – Investment dealers will benefit from early warning excess calculation that does not double count provider of capital charges.	<i>Minor negative</i> – Mutual fund dealers will need to adjust policies and procedures to calculate and monitor early warning excess using a revised formula. Level 4 mutual fund dealers will also be required to monitor and calculate early warning reserve.	<i>Positive</i> – CIRI staff is expected to benefit from more efficient monitoring of Dealer Members' financial solvency.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt harmonized approach to counterparty classification.</i>	Ensure consistent and level playing field for Dealer Members engaging with same counterparties.	<i>Positive</i> – Clients of mutual fund dealers that qualify under certain counterparty classifications may be treated as institutional clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Mutual fund dealers will need to adjust policies and procedures for updated counterparty classifications and assess qualification of existing counterparties.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for counterparty classification.
<i>Adopt harmonized approach to reporting non-transactional receivables.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for reporting non-transactional receivables.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Mutual fund dealers with non-transactional receivables from certain counterparties may no longer qualify as allowable assets, resulting in potential capital implications. We anticipate this impact to be minimal.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for reporting non-transactional receivables.
<i>Adopt harmonized approach to institutional counterparty margin requirements including equity deficiency margining for acceptable counterparties and regulated entities.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring counterparty risk.	<i>Positive</i> – Clients of mutual fund dealers that qualify as institutional clients may benefit from reduced margin obligations.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Mutual fund dealers may need to update policies, procedures and systems to monitor counterparty exposures. Mutual fund dealers with exposures to acceptable counterparties and regulated entities may have margin implications that reduce capital.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for counterparty margin.
<i>Adopt harmonized approach to margin treatment of client debit balances in certain non-margin accounts.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring of credit risk in non-margin accounts.	<i>Positive</i> – Clients of mutual fund dealers may benefit from more flexibility in settling debit balances.	<i>Neutral</i> – We do not anticipate any impact on investment dealers as the amendments provide clarity on existing requirements.	<i>Positive</i> – Mutual fund dealers with client debit balances benefit from flexibility in margin treatment and potentially reduced impact to capital.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for treatment of client debit balances.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>Adopt reporting requirements for balances with acceptable institutions, acceptable counterparties and regulated entities.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for reporting of counterparty balances.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Mutual fund dealers may need to update policies, procedures and systems to comply with counterparty reporting requirements.	<i>Positive</i> – CIRI staff is expected to benefit from consistent reporting of counterparty balances.
<i>Adopt harmonized approach to custody risk including definition of acceptable securities location and margin implications for non-acceptable securities location.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring of custody risk.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor positive</i> – Mutual fund dealers will benefit with potential margin relief for certain custody requirements and more expansive list of acceptable securities locations, but may be negatively impacted if they hold assets at financial institutions that do not meet minimum net worth requirements.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for assessing Dealer Member custody risk.
<i>Adopt harmonized approach to security concentration risk.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring of securities concentration risk.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No impact for investment dealers.	<i>Minor negative</i> – Mutual fund dealers that invest in securities may need to update policies, procedures and systems to monitor and calculate concentration exposures. Mutual fund dealers that choose to offer margin to clients will need to monitor both client and inventory concentration exposures.	<i>Positive</i> – CIRI staff is expected to benefit from more efficient monitoring of Dealer Members' concentration risk.
<i>Introduce “diversified investment product” definition and alternative concentration exposure</i>	Ensure consistency and a level playing field between investment dealers and mutual fund	<i>Neutral</i> – No impact anticipated for clients.	<i>Minor positive</i> – Investment dealers will benefit from flexibility in managing exposures to ETFs and mutual funds.	<i>Minor positive</i> – Mutual fund dealers will benefit from flexibility in managing exposures to ETFs and mutual funds.	<i>Positive</i> – CIRI staff is expected to benefit from more efficient monitoring

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>calculation for these products.</i>	dealers for measuring of securities concentration risk.				of Dealer Members' concentration risk.
<i>Adopt harmonized approach to foreign currency risk.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring of foreign exchange risk.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Mutual fund dealers with foreign currency assets may need to update policies, procedures and systems to monitor and calculate foreign currency exposures.	<i>Positive</i> – CIRI staff is expected to benefit from having a single set of standards for Dealer Members' foreign currency risk.
<i>Adopt harmonized approach to provider of capital exposures.</i>	Ensure consistency and a level playing field between investment dealers and mutual fund dealers for measuring of provider of capital exposures.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Negative</i> – Mutual fund dealers may need to update policies, procedures and systems to monitor and calculate provider of capital exposures. A subset of mutual fund dealers with cash deposits at an affiliated financial institution may have a significant impact. A phased implementation approach is proposed.	<i>Positive</i> – CIRI staff is expected to benefit from having a clear set of standards for capital concentration of Dealer Members.
<i>Adopt blended statements and schedules for reporting financial statements and capital.</i>	Ensure consistency in regulatory financial statements and inclusion of financial information relevant to both dealer types.	<i>Neutral</i> – No impact anticipated for clients.	<i>Minor negative</i> – Investment dealers will need to familiarize themselves with the blended statements/ schedules and the reporting lines that are applicable.	<i>Minor negative</i> – Mutual fund dealers will need to familiarize themselves with the blended statements/ schedules and the reporting lines that are applicable.	<i>Positive</i> – CIRI staff is expected to benefit from standard regulatory financial statements for assessing the financial position of Dealer Members.
<i>Adopt IDPC schedules where no MFD schedule existed and apply schedule</i>	Ensure a level playing field by maintaining existing schedules	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor negative</i> – Mutual fund dealers that engage in reportable activity may	<i>Positive</i> – CIRI staff is expected to benefit from

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRI
<i>to any Dealer Member engaged in the reportable activity.</i>	relevant to investment dealer business activities and extending reporting requirements to mutual fund dealers that engage in the same activities.			need to update policies, procedures and systems. Mutual fund dealers with significant tax expenses may benefit from reduced capital due to tax recovery schedule.	consistent Dealer Member reporting.
<i>Introduce separate schedules specific to mutual fund dealers and investment dealers where investment dealer requirements are more complex.</i>	Simplify and customize reporting for mutual fund dealers.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor positive</i> – Mutual fund dealers will benefit from reduced administrative burden arising from simplified versions of schedules, where applicable.	<i>Neutral</i> – No impact anticipated for CIRI.
<i>Introduce new schedule for reporting assets under administration.</i>	Enhance information collected under previous MFD Form 1 and improve efficiency of determining regulatory fees and assessments.	<i>Neutral</i> – No impact anticipated for clients.	<i>Minor negative</i> – Investment dealers may need to update systems to report additional information.	<i>Minor negative</i> – Mutual fund dealers may need to update systems to report additional information.	<i>Positive</i> – CIRI staff is expected to benefit from having the additional information for fee calculations and data analysis.
<i>Adopt hybrid approach to audit reports and agreed-upon procedures report.</i>	Ensure audit reports and procedures are appropriate for the business model and dealer type.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral</i> – We do not anticipate any impact to mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRI.
<i>Harmonize financial figure reporting convention and monthly financial report requirements for investment dealers and mutual fund dealers.</i>	Ensure Dealer Member's financial data is consistent and comparable.	<i>Neutral</i> – No impact anticipated for clients.	<i>Neutral</i> – No change for investment dealers.	<i>Minor positive</i> – Mutual fund dealers may benefit from reduced administrative burden.	<i>Positive</i> – CIRI staff is expected to benefit from ability to compare and analyze Dealer Member financial data.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Modify statements to recognize mutual fund dealers structured as not-for-profit.</i>	Ensure consistency in financial reporting for Dealer Members despite different corporate and legal structures.	<i>Neutral</i> – No impact anticipated to clients.	<i>Neutral</i> – No change for investment dealers.	<i>Neutral to minor positive</i> – A subset of mutual fund dealers structured as not-for-profit will benefit from clarity on financial reporting requirements.	<i>Positive</i> – CIRO staff is expected to benefit from consistent financial statement reporting for all dealer types.