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**MUTUAL FUND DEALERS ASSOCIATION OF CANADA/
ASSOCIATION CANADIENNE DES COURTIERS DE FONDS MUTUELS**

RULES

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MUTUAL FUND DEALERS ASSOCIATION OF CANADA

1. RULE NO. 1 - BUSINESS STRUCTURES AND QUALIFICATIONS

1.1 BUSINESS STRUCTURES

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

- (a) all such securities related business is carried on for the account of the Member, through the facilities of the Member (except as expressly provided in the Rules) and in accordance with the By-laws and Rules, other than:
 - (i) such business as relates solely to trading in deposit instruments conducted by any Approved Person not on account of the Member; and
 - (ii) such business conducted by an Approved Person as an employee of a bank and in accordance with the *Bank Act (Canada)* and the regulations thereunder and applicable securities legislation.
- (b) all revenues, fees or consideration in any form relating to any business engaged in by the Member is paid or credited directly to the Member and is recorded on the books of the Member;
- (c) the relationship between the Member and any person conducting securities related business on account of the Member is that of:
 - (i) an employer and employee, in compliance with Rule 1.1.4,
 - (ii) a principal and agent, in compliance with Rule 1.1.5, or
 - (iii) an introducing dealer and carrying dealer, in compliance with Rule 1.1.6;
- (d) the business or trade or style name under which such securities related business is conducted is in accordance with Rule 1.1.7.

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

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

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

- (b) any remuneration or compensation in any form in respect of such services shall only be paid or credited by the Member or Approved Person engaging the services, as the case may be, directly to the person providing the services and the payment or credit of such remuneration or compensation shall be recorded in the books and records required to be maintained in accordance with the By-laws and Rules by the Member or Approved Person engaging such services;
- (c) the Member or Approved Person engaging the services shall remain responsible for compliance with the By-laws and Rules and any applicable legislation;
- (d) any person preparing and maintaining books and records as a service in respect of the business of the Member or Approved Person shall do so in accordance with the requirements of Rule 5, and such books and records shall be available for review by the Member or Approved Person during normal business hours and by the Corporation in accordance with the By-laws and Rules; and
- (e) all material terms of the services to be engaged that relate to requirements of the Member or Approved Person under the By-laws, Rules, Policies or Forms shall be evidenced in writing and a copy of such terms, together with any amendments thereto from time to time or termination, shall be provided by the Member or Approved Person promptly to the Corporation upon request, together with any other information relating thereto as may be requested by the Corporation.

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

- (a) any such employee is registered or licensed, in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the employee proposes to act;
- (b) the Member shall be responsible for, and shall supervise, the conduct of the employee as an Approved Person in respect of the business including compliance with applicable legislation and the By-laws and Rules;
- (c) the Member shall be liable to third parties (including clients) for the acts and omissions of the employee relating to the Member's business;
- (d) the employee is in compliance with the legislation, By-laws and Rules applicable to the employee as an Approved Person; and
- (e) where the Member and the Approved Person employed as an employee have entered into a written agreement, it shall not contain provisions which are inconsistent with an employment relationship or with the requirements set out in paragraphs (a) to (d) inclusive, of Rule 1.1.4.

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

- (a) any such agent is registered or licensed in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the agent proposes to act;
- (b) the Member shall be responsible for, and shall supervise, the conduct of the agent in respect of the business including compliance with applicable legislation and the By-laws and Rules;
- (c) the Member shall be liable to third parties (including clients) for the acts and omissions of the agent relating to the Member's business;
- (d) the agent is in compliance with the legislation, By-laws and Rules applicable to the agent;
- (e) the financial institution bonds and insurance policies required to be maintained by the Member pursuant to Rule 4 cover and relate to the conduct of the agent;
- (f) all books and records prepared and maintained by the agent in respect of such business of the Member shall be in accordance with Rule 5 and applicable legislation, shall be the property of the Member and shall be available for review by and delivery to the Member during normal business hours;
- (g) all such business conducted by the agent is in the name of the Member subject to the provisions of Rule 1.1.7;
- (h) the agent shall not conduct securities related business with or in respect of any person other than the Member;
- (i) if the agent is engaged in or carrying on any business or activity other than business conducted on behalf of the Member, including any business or activity which is subject to regulation by any regulatory authority other than a securities commission, compliance with the terms of the agreement referred to in paragraph (k) shall be monitored and enforced directly by the Member and not by or through any other person including another employer or principal of the agent;
- (j) the terms or basis on which the agent may be engaged in or carry on any business or activity other than business conducted on behalf of the Member shall not prevent or impair the ability of the Member or the Corporation from monitoring and enforcing compliance by the agent with the terms of the agreement referred to in paragraph (k) or the By-laws or Rules; and
- (k) the Member and the agent shall have entered into an agreement in writing, which shall be provided promptly to the Corporation upon request, containing terms which include the provisions of paragraphs (a) to (j), inclusive, and which do not include provisions which are inconsistent with paragraphs (a) to (j), and shall provide the Corporation with a certificate signed by an officer or director of such Member and, upon request by the Corporation, shall provide an opinion of counsel, confirming the agreement is in compliance with such provisions.

1.1.6 Introducing and Carrying Arrangement

- (a) **Permitted Arrangements.** A Member may enter into an arrangement with another Member pursuant to which the accounts of one Member (the "introducing dealer") are carried by the other Member (the "carrying dealer") provided that:
- (i) the arrangement shall satisfy the requirements of a carrying arrangement described in Rule 1.1.6(b);
 - (ii) an introducing dealer shall not introduce accounts to any person who is not a Member;
 - (iii) an introducing dealer may not introduce accounts to more than one Member, except that a Level 2, 3 or 4 Member may introduce to another Member accounts of clients which are self-directed plans registered for income tax purposes;
 - (iv) the Members shall enter into a written agreement evidencing the arrangement and reflecting the requirements of Rule 1.1.6(b) and such other matters as may be required by the Corporation;
 - (v) the arrangement (including the form of agreement referred to in Rule 1.1.6(b)) and any amendment to or termination of the arrangement or agreement, shall have been approved by the Corporation before it is to become effective; and
 - (vi) the arrangement shall be in compliance with the By-laws and Rules and the securities legislation applicable to either of the Members.
- (b) **Terms of Arrangement.** A Member may enter into an agreement with another Member in accordance with Rule 1.1.6(a) if it satisfies the following requirements:
- (i) Minimum Capital. The carrying dealer shall maintain at all times minimum capital of a Level 4 Dealer, and the introducing dealer shall maintain at all times minimum capital of a Level 1, 2, 3 or 4 Dealer, as the case may be;
 - (ii) Reporting of Client Balances. In calculating the risk adjusted capital required pursuant to Rule 3.1.1 and Form 1, the carrying dealer shall report all accounts of the clients (introduced by the introducing dealer to the carrying dealer and for whom assets are held in nominee name) on the carrying dealer's Form 1 and Monthly Financial Report;
 - (iii) Comfort Deposit. Any deposit (other than deposits on behalf of clients) provided to the carrying dealer by the introducing dealer pursuant to the terms of the agreement between them shall be segregated in accordance with Rule 3.3 by the carrying dealer and shall be held by the carrying dealer in a separate designated trust account for the introducing dealer;
- The deposit provided by the introducing dealer to the carrying dealer shall be reported by the introducing dealer as an allowable asset on its Form 1 and Monthly Financial Report;

- (iv) Segregation of Client Cash and Securities. The carrying dealer shall be responsible for holding and segregating in accordance with the requirements of Rule 3.3 all cash and securities held for clients introduced to it by an introducing dealer, provided that a Level 3 introducing dealer may hold cash, and a Level 4 introducing dealer may hold cash and securities, for the accounts of clients to the extent to which such functions are not part of the services to be provided by the carrying dealer;
- (v) Trust Accounts. The carrying dealer shall be responsible for and shall maintain in its name any trust accounts established in respect of cash received for the account of clients introduced to it by the introducing dealer, provided that a Level 3 or 4 introducing dealer may hold cash in such trust accounts to the extent to which such functions are not part of the services to be provided by the carrying dealer;
- (vi) Insurance. The introducing dealer and carrying dealer shall each maintain minimum insurance in the amounts required and in accordance with Rule 4;
- (vii) Amount of Insurance. The carrying dealer shall include all accounts introduced to it by the introducing dealer that are held in nominee name in its calculation of the "base amount" asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 4;
- (viii) Disclosure and Acknowledgement on Account Opening. At the time of opening each client account, the introducing dealer shall advise the client of the introducing dealer's relationship to the carrying dealer and of the relationship between the client and the carrying dealer and, in the case of a Level 1 or 2 introducing dealer, obtain from the client an acknowledgement in writing to the effect that such advice has been given. In the case of a Level 2 introducing dealer, the acknowledgement shall reflect that the introducing dealer has advised the client that the carrying dealer shall be responsible for and shall maintain in its name any trust accounts established in respect of cash received from clients and that all client cheques shall be payable to the carrying dealer;
- (ix) Contracts, Account Statements, Confirmations and Client Communications. The name and role of each of the carrying dealer and the introducing dealer shall be shown on all contracts, account statements, confirmations and, in the case of a Level 1 introducing dealer, all client communications (as defined in Rule 2.8.1) and advertisements and sales communications (as defined in Rule 2.7.1) sent by either the introducing dealer or the carrying dealer in respect of accounts carried by the carrying dealer. In the case of a Level 1 introducing dealer, the name and role of the carrying dealer shall appear in at least equal size to that of the introducing dealer. The use of business or trade or style names shall be in accordance with Rule 1.1.7 as applicable. The carrying dealer shall be responsible for sending account statements and confirmations to clients introduced to it by the introducing dealer as required by the By-laws and Rules to the extent

such statements and confirmations relate to trading or account positions in respect of which the carrying dealer has provided services;

- (x) Annual Disclosure. A Level 3 or Level 4 introducing dealer may comply with the disclosure requirements under paragraph (ix) by providing written disclosure at least annually to each of its clients whose accounts are being carried by the carrying dealer, outlining the relationship between the introducing dealer and the carrying dealer and the relationship between the client and the carrying dealer;
- (xi) Clients Introduced to the Carrying Dealer. Each client introduced to the carrying dealer by the introducing dealer shall be considered a client of the carrying dealer for the purposes of complying with the By-laws and Rules to the extent of the services provided by the carrying dealer; and
- (xii) Responsibility for Compliance. Unless otherwise specified in Rule 2 or in this Rule 1.1.6, the introducing dealer which is a Level 1 Dealer and its carrying dealer shall be jointly and severally responsible for compliance with the By-laws and Rules for each account introduced to the carrying dealer by the introducing dealer, and in all other cases the introducing dealer shall be responsible for such compliance, subject to the carrying dealer being also responsible for compliance with respect to those functions it agrees to perform under the arrangement entered into under this Rule 1.1.6.

1.1.7 **Business Names, Styles, Etc.**

- (a) **Use of Member Name**. Except as permitted pursuant to Rule 1.1.6 with respect to introducing dealers and carrying dealers and subject to Rule 1.1.7(b) and (c), all business carried on by a Member or by any person on its behalf shall be in the name of the Member or a business or trade or style name owned by the Member or an affiliated corporation of the Member.
- (b) **Contracts, Account Statements and Confirmations**. Notwithstanding the provisions of paragraph (a), the legal name of the Member shall be included on any contracts, account statements or confirmations of the Member.
- (c) **Use of Approved Person Trade Name**. Notwithstanding the provisions of paragraph (a), an Approved Person may conduct any business of the Member in a business or trade name or style name that is not that of, or owned by, the Member or its affiliated corporation if:
 - i) the Member has given its prior written consent; and
 - ii) in all materials communicated to clients or the public (other than contracts, account statements or confirmations in accordance with (iii)):
 - (A) the name is used together with the Member's legal name; and
 - (B) the Member's legal name or a business or trade or style name of the Member is at least equal in size and prominence to the business or trade or style name used by the Approved Person;

- iii) on contracts, account statements or confirmations, the Member's legal name must be at least equal in size and prominence to the business or trade or style name used by the Approved Person.
- (d) **Notification of Trade Names.** Prior to the use of any business or style or trade names other than the Member's legal name, the Member shall notify the Corporation.
- (e) **Compliance with Applicable Legislation.** Any business or trade or style name used by a Member or Approved Person must comply with the requirements of any applicable legislation relating to the registration of business or trade or style names.
- (f) **Single Use of Trade Names.** No Member or Approved Person of such Member shall use any business or trade or style name that is used by any other Member, unless the relationship with such other Member is that of an introducing dealer and carrying dealer, in compliance with Rule 1.1.6.
- (g) **Misleading Trade Name.** No Member or Approved Person shall use any business or trade or style name that is deceptive, misleading or likely to deceive or mislead the public.
- (h) **Prohibition of Use of Trade Name.** The Corporation may prohibit a Member or Approved Person from using any business or trade or style name in a manner that is contrary to any provision of this Rule 1.1.7 or that is objectionable or contrary to the public interest.

1.2 INDIVIDUAL QUALIFICATIONS

1.2.1 Salespersons

- (a) **Course Requirements.** Each Approved Person who is a salesperson and who trades or deals in securities for the purposes of any applicable legislation in respect of a Member shall have successfully completed any one of the following courses:
 - (i) the Canadian Securities Course offered by the Canadian Securities Institute;
 - (ii) the Canadian Investment Funds Course offered by the Investment Funds Institute of Canada;
 - (iii) the Investment Funds in Canada Course offered by the Institute of Canadian Bankers;
 - (iv) the Principles of Mutual Funds Course formerly offered by the Trust Companies Institute; or
 - (v) to the extent the Approved Person trades or deals in securities in the Province of Quebec only, the courses entitled Placements des particuliers (CEGEP) and Cours sur les fonds distincts et fonds communs de placement offered by the Canadian Securities Institute.

- (b) **Compliance with MFDA Requirements.** Each Member shall ensure that any Approved Person who conducts any business on behalf of the Member executes and delivers to the Member an agreement in a form as prescribed from time to time by the Corporation agreeing, among other things, to be subject to, comply with and be bound by the By-laws and Rules.
- (c) **Training and Supervision.** Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective.
- (d) **Dual Occupations.** An Approved Person may have, and continue in, another gainful occupation, provided that:
- (i) *Permitted by legislation.* The securities commission in the jurisdiction in which the Approved Person carries on or proposes to carry on business specifically permits him or her to devote less than his or her full time to the business of the Member for which he or she acts on behalf of;
 - (ii) *Not prohibited.* The securities commission in the jurisdiction in which the Approved Person carries on or proposes to carry on business does not prohibit an Approved Person from engaging in such gainful occupation;
 - (iii) *Member approval.* The Member for which the Approved Person carries on business either as an employee or agent is aware and approves of the Approved Person engaging in such other gainful occupation;
 - (iv) *Member procedures.* Such Member establishes and maintains procedures to ensure continuous service to clients and to address potential conflicts of interest;
 - (v) *Conduct unbecoming.* Any such gainful occupation of the Approved Person must not be such as to bring the Corporation, its Members or the mutual fund industry into disrepute;
 - (vi) *Disclosure.* Clear disclosure is provided to clients that any activities related to such other gainful occupation are not business of the Member and are not the responsibility of the Member; and
 - (vii) *Financial planning.* Any Approved Person that engages in financial planning services otherwise than through or on behalf of a Member must:
 - (A) Regulations - provide such services through another person that is either regulated by a governmental authority or statutory agency or subject to the rules and regulations of a widely-recognized professional association;

- (B) Legislation - comply with the requirements of any applicable legislation in connection with the services;
 - (C) Access - ensure that, subject to any applicable legislation, the Member and the Corporation have access to financial plans prepared on behalf of the clients of the Member by its Approved Persons; and
 - (D) Proficiency - have satisfied any applicable proficiency requirements by securities regulatory authorities having jurisdiction.
- (e) **Business Titles.** No Approved Person shall hold him or herself out to the public in any manner including, without limitation, by the use of any business name or designation of qualifications or professional experience that deceives or misleads, or could reasonably be expected to deceive or mislead, a client or any other person as to the proficiency or qualifications of the Approved Person under the Rules or any applicable legislation.

1.2.2 Branch Managers

- (a) **Proficiency Requirements.** An individual may not be designated by the Member as a branch manager pursuant to Rule 2.5.3(a) or an alternate branch manager pursuant to Rule 2.5.3(c) unless the individual has:
- (i) been licensed or registered previously under applicable securities legislation as a trading partner, director, officer or compliance officer of a mutual fund dealer; or
 - (ii) has successfully completed any one of the following courses:
 - (A) the Canadian Securities Course offered by the Canadian Securities Institute,
 - (B) the Canadian Investment Funds Course offered by the Investment Funds Institute of Canada, or
 - (C) the Investment Funds in Canada Course offered by the Institute of Canadian Bankers,
 and, any one of the following courses:
 - (D) the Branch Managers' Course offered by the Canadian Securities Institute,
 - (E) the Mutual Fund Branch Managers' Course offered by the Investment Funds Institute of Canada, or
 - (F) the Branch Compliance Officers Course offered by the Institute of Canadian Bankers.
- (b) **Experience Requirements.** In addition to the requirements set out in Rule 1.2.2(a), each branch manager, except alternate branch managers, in respect of a Member shall:
- (i) have acted as a salesperson, trading partner, director, officer or compliance officer registered under the applicable securities legislation for a minimum of two years; or

- (ii) have a minimum of two years of equivalent experience to that of an individual described in Rule 1.2.2(b)(i).
- (c) **Registration.** Each Branch Manager, in addition to the requirements in Rule 1.2.2(a) shall be registered, licensed or approved as a branch manager under the applicable securities legislation and comply with the requirements of such legislation in connection therewith.

1.2.3 Trading Partners, Directors, Officers and Compliance Officers

- (a) **Definition.** In this Rule, "trading partner, director or officer" means each partner, director or officer who is required to be registered and/or licensed under applicable securities legislation.
- (b) **Course Requirements.** Each trading partner, director, officer and designated compliance officer of a Member shall have successfully completed any one of the following courses:
 - (i) the Canadian Securities Course offered by the Canadian Securities Institute;
 - (ii) the Canadian Investment Funds Course offered by the Investment Funds Institute of Canada; or
 - (iii) the Investment Funds in Canada Course offered by the Institute of Canadian Bankers;and, any one of the following:
 - (iv) the Partners', Directors' and Senior Officers' Qualifying Examination offered by the Canadian Securities Institute; or
 - (v) the Mutual Fund Officers', Partners' and Directors' Course offered by the Investment Funds Institute of Canada.
- (c) **Registration.** Each trading partner, director, officer and compliance officer of a Member shall be registered and/or licensed in the appropriate category under applicable securities legislation and shall comply with the requirements of such legislation in connection therewith.

1.2.4 Currency of Courses.

- (a) For the purposes of Rules 1.2.1(a), 1.2.2(a) or 1.2.3(b):
 - (i) the courses or examinations must have been successfully completed; or
 - (ii) the individual must have been registered/licensed under applicable securities legislation in the equivalent category;within three years of the relevant time for qualification or such longer period as the Corporation may determine if it is satisfied based on the individual's experience that his or her knowledge and proficiency remains relevant and current.

- (b) Notwithstanding subsection (a), if an individual completes a course for which another course is a prerequisite, the course which is a prerequisite need not have been completed within the three year period.

1.2.5 Reporting Requirements.

- (a) **Member Reporting.** Every Member must report to the Corporation such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to:
 - (i) complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events;
 - (ii) investigations by the Member relating to any of the matters in sub-section (i); and
 - (iii) information relating to the business and operation of the Member and its Approved Persons.
- (b) **Approved Person Reporting.** Every Approved Person must report to the Member such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events.
- (c) **Failure to Report.** A Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or Approved Person to report any information required to be reported in the manner and within the period of time prescribed by the Corporation.

2. RULE NO. 2 - BUSINESS CONDUCT

2.1 GENERAL

2.1.1 **Standard of Conduct.** Each Member and each Approved Person of a Member shall:

- (a) deal fairly, honestly and in good faith with its clients;
- (b) observe high standards of ethics and conduct in the transaction of business;
- (c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and
- (d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

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

2.1.3 Confidential Information

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

2.1.4 Conflicts of Interest

- (a) Each Member and Approved Person shall be aware of the possibility of conflicts of interest arising between the interests of the Member or Approved Person and the interests of the client. Where an Approved Person becomes aware of any conflict or potential conflict of interest, the Approved Person shall immediately disclose such conflict or potential conflict of interest to the Member.
- (b) In the event that such a conflict or potential conflict of interest arises, the Member and the Approved Person shall ensure that it is addressed by the exercise of responsible business judgment influenced only by the best interests of the client and in compliance with Rules 2.1.4(c) and (d).

- (c) Any conflict or potential conflict of interest that arises as referred to in Rule 2.1.4(a) shall be immediately disclosed in writing to the client by the Member, or by the Approved Person as the Member directs, prior to the Member or Approved Person proceeding with the proposed transaction giving rise to the conflict or potential conflict of interest.
- (d) Each Member shall develop and maintain written policies and procedures to ensure compliance with Rules 2.1.4(a), (b) and (c).

2.2 CLIENT ACCOUNTS

2.2.1 "Know-Your-Client". Each Member and Approved Person shall use due diligence:

- (a) to learn the essential facts relative to each client and to each order or account accepted;
- (b) to ensure that the acceptance of any order for any account is within the bounds of good business practice; and
- (c) to ensure that each order accepted or recommendation made for any account of a client is suitable for the client and in keeping with the client's investment objectives; and
- (d) to ensure that, notwithstanding the provisions of paragraph (c), where a transaction proposed by a client is not suitable for the client and in keeping with the client's investment objectives, the Member has so advised the client before execution thereof.

2.2.2 New Account Application Form. A New Account Application Form must be completed for each new account of a client. If the New Account Application Form does not include know-your-client information, this must be documented on a separate Know-Your-Client form. Such form or forms shall be duly completed to conform with the requirements of Rule 2.2.1 and shall be signed by the client and dated. Account numbers must not be assigned unless they are accompanied by the proper name and address for the client and such name and address must be supported by the New Account Application Form.

2.2.3 New Account Approval. Each Member shall designate a trading partner, director or officer or, in the case of a branch office, a branch manager reporting directly to the designated partner, director or officer, who shall be responsible for approval of the opening of new accounts and the supervision of account activity. The designated person shall prior to or promptly after the completion of any initial transaction specifically approve the opening of such account in writing and a record of such approval shall be maintained in accordance with Rule 5.

2.2.4 Updating Know-Your-Client Information

- (a) The Form documenting know-your-client information must be updated to include any material change in client information whenever a Member or Approved

Person or other employee or agent becomes aware of such change including pursuant to Rule 2.2.4(b).

- (b) Without reducing the responsibility of Members in Rule 2.2.1, all Members must at least annually, in writing, request each client to notify the Member if the know-your-client information previously provided to the Member or the client's circumstances have materially changed. The date of such request and the date upon which any such client information is received and recorded or amended must be retained.
- (c) Written authorization must be obtained from the client for any change in a client name.

2.3 POWER OF ATTORNEY/LIMITED TRADING AUTHORIZATION/DISCRETIONARY TRADING

- 2.3.1 (a) **Prohibition.** No Member or Approved Person shall accept or act upon a general power of attorney or other similar authorization from a client in favour of the Member or Approved Person or engage in any discretionary trading.
- (b) **Exception.** Notwithstanding the provisions of paragraph (a), an Approved Person may accept or act upon a general power of attorney or similar authorization from a client in favour of the Approved Person where such client is a spouse, parent or child of the Approved Person and provided that:
 - (i) the Approved Person notifies the Member of the acceptance of the general power of attorney or similar authorization;
 - (ii) an Approved Person other than the Approved Person holding the general power of attorney must be the Approved Person of record on the account; and
 - (iii) such other conditions as prescribed by the Corporation are met.
- 2.3.2 **Limited Trading Authorization.** A Member or Approved Person may accept a limited trading authorization from a client for the express purpose of facilitating trade execution. In such circumstances a form of limited trading authorization as prescribed by the Corporation must be completed and approved by the compliance officer or branch manager, and retained in the client's file.
- 2.3.3 **Designation.** Each trade made pursuant to a limited trading authorization and its corresponding account must be identified as such in the books and records of the Member and on any order documentation.

2.4 REMUNERATION, COMMISSIONS AND FEES

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

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

- (b) **Payment of Commissions to Unregistered Corporation.** For the purpose of this Rule, “unregistered corporation” shall be understood to mean a corporation that is, itself, not registered under securities legislation. Notwithstanding paragraph (a), where an Approved Person acts as an agent of the Member in compliance with MFDA Rule 1.1.5, any remuneration, gratuity, benefit or other consideration in respect of business conducted by the Approved Person on behalf of a Member may be paid by the Member to an unregistered corporation provided that:
- (i) such arrangements are not prohibited or otherwise limited by the relevant securities legislation or securities regulatory authorities;
 - (ii) the corporation is incorporated under the laws of Canada or a province or territory of Canada;
 - (iii) the Member, Approved Person and the unregistered corporation have entered into an Agreement in writing, in a form prescribed by the Corporation, in favour of the Corporation, the terms of which provide that:
 - (A) the Member and Approved Person shall comply with applicable MFDA By-laws and Rules and securities legislation and remain liable to third parties, including clients, irrespective of whether any remuneration, gratuity, benefit or any other consideration is paid to an unregistered corporation and no such payment shall, in and of itself, in any way limit or affect the duties, obligations or liability of the Member or Approved Person under MFDA Rules and applicable securities legislation;
 - (B) the Member shall engage in appropriate supervision with respect to the conduct of the Approved Person and the unregistered corporation to ensure such compliance as referred to in (A), above; and
 - (C) the Approved Person and the unregistered corporation shall provide the Member, the applicable securities commission and the MFDA with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with MFDA Rules and applicable securities legislation.
- (c) **Arrangements Prohibited.** Paragraph (b) does not apply in respect of any such remuneration, gratuity, benefit or other consideration derived from a client in Alberta.

2.4.2 Referral Arrangements

- (a) **Definitions.** For the purpose of this Rule 2.4.2
- (i) a "referral arrangement" is an arrangement whereby a Member is paid or pays a fee, including fees based on commissions or sharing a commission, for the referral of a client to or from another person; and
 - (ii) a referral arrangement does not include any payment to a third party service provider where the service provider has no direct contact with clients and where the services do not constitute securities related business.
- (b) **Permitted Arrangements.** Referral arrangements may only be entered into on the following basis:
- (i) the referral arrangement is only between a Member and another Member or between a Member and an entity that is (A) licensed or registered in another category pursuant to applicable securities legislation, (B) a Canadian financial institution for the purposes of National Instrument 14-101, (C) insurance agents or brokers, or (D) subject to such other regulatory system as may be prescribed by the Corporation;
 - (ii) there is a written agreement governing the referral arrangement prior to implementation;
 - (iii) all fees or other form of compensation paid as part of the referral arrangement, to or by the Member, must be recorded on the books and records of the Member; and
 - (iv) written disclosure of referral arrangements must be made to clients prior to any transactions taking place. The disclosure document must include an explanation or an example of how the referral fee is calculated, the name of the parties receiving and paying the fee, and a statement that it is illegal for the party receiving the fee to trade or advise in respect of securities if it is not duly licensed or registered under applicable securities legislation to so trade or advise.

2.4.3 **Service Fees or Charges.** No Member shall impose on any client or deduct from the account of any client any service fee or service charge relating to services provided by the Member in connection with the client's account unless written notice shall have been given to the client on the opening of the account or not less than 60 days prior to the imposition or revision of the fee or charge. For the purposes of this Rule, service fees or charges shall not include any commissions charged for executing trades.

2.5 MINIMUM STANDARDS OF SUPERVISION

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

2.5.2 Compliance Officer

- (a) **Designation.** Each Member must designate a trading officer as a "compliance officer" who shall be or report to a member of senior management such as the Member's chief executive officer, chief operating officer or chief financial officer.
- (b) **Responsibilities.** The compliance officer shall be responsible for monitoring adherence by the Member and any person conducting business on account of the Member to the By-laws, Rules and Policies, including, without limitation, standards of business conduct under Rule 2 and applicable securities legislation requirements. The compliance officer or the individual to whom the compliance officer reports is required to report on the status of compliance at the Member to the board of directors or partners of the Member as necessary, and at least on an annual basis. It shall be the responsibility of the board of directors or partners of the Member to act on the annual report and to rectify any compliance deficiencies noted in the report.
- (c) **Alternates.** In the event that a compliance officer is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternates who must be qualified as compliance officers pursuant to Rule 1.2.3 and who shall carry out the responsibilities of the compliance officer.

2.5.3 Branch Manager

- (a) **Designation.** Each Member shall designate a person qualified as a branch manager pursuant to Rule 1.2.2 for each branch office (as defined in By-law 1.1) of the Member. The Member is not required to designate a branch manager for a sub-branch office who is normally present at the office, provided that a branch manager who is not normally present at such sub-branch office, or a trading partner, director or officer or a compliance officer designated as the branch manager for such sub-branch office, supervises its business at the sub-branch office in accordance with the By-laws and Rules.
- (b) **Responsibilities.** It is the responsibility of a branch manager to:
 - (i) ensure that the business conducted on behalf of the Member by an Approved Person and other employees and agents at the branch is in compliance with applicable securities legislation and the By-laws and Rules;
 - (ii) supervise the opening of new accounts and trading activity at the branch office.

- (c) **Alternates.** In the event that a branch manager is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternate branch managers who must be qualified as branch managers pursuant to Rule 1.2.2(a) and who shall carry out the responsibilities of the branch manager, but are not required to be normally present at the branch office.

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

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

2.6 **BORROWING FOR SECURITIES PURCHASES**

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

- (a) a new account is opened for the client; and
- (b) when an Approved Person makes a recommendation for purchasing securities by borrowing, or otherwise becomes aware of a client borrowing monies for the purpose of investment,

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

2.7 **ADVERTISING AND SALES COMMUNICATIONS**

2.7.1 **Definitions.** For the purposes of the By-laws and Rules:

- (a) "advertisement" includes television or radio commercials or commentaries, billboards, internet websites, newspapers and magazine advertisements or commentaries and any published material promoting the business of a Member and any other sales literature disseminated through the communications media; and
- (b) "sales communication" includes records, video tapes and similar material, market letters, research reports, and all other published material, except preliminary prospectuses and prospectuses, designed for or use in presentation to a client or a prospective client whether such material is given or shown to them and which includes a recommendation in respect of a security.

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

- (a) contains any untrue statement or omission of a material fact or is otherwise false or misleading, including the use of a visual image such as a photograph, sketch, drawing, logo or graph which conveys a misleading impression;
- (b) contains an unjustified promise of specific results;
- (c) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions;
- (d) contains any opinion or forecast of future events which is not clearly labelled as such;
- (e) fails to fairly present the potential risks to the client;
- (f) is detrimental to the interests of the public, the Corporation or its Members; or
- (g) does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction over the Member.

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

2.8 CLIENT COMMUNICATIONS

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

2.8.2 **General Restrictions.** No client communication shall:

- (a) be untrue or misleading or use an image such as a photograph, sketch, logo or graph which conveys a misleading impression;
- (b) make unwarranted or exaggerated claims or conclusions or fail to identify the material assumptions made in arriving at these conclusions;
- (c) be detrimental to the interests of clients, the public, the Corporation or its Members;
- (d) contravene any applicable legislation or any guideline, policy, rule or directive of any regulatory authority having jurisdiction over the Member; or

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

2.8.3 Rates of Return

- (a) In addition to complying with the requirements in Rule 2.8.2, any client communication containing or referring to a rate of return regarding a specific account or group of accounts must be based on an annualized rate of return and explain the methodology used to calculate such rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return.
- (b) Notwithstanding the provisions of paragraph (a), where an account has been open for less than 12 months, the rate of return shown must be the total rate of return since account opening.

2.9 INTERNAL CONTROLS

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

2.10 POLICIES AND PROCEDURES MANUAL

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

2.11 COMPLAINTS

Every Member shall maintain a log of client complaints and shall establish written policies and procedures for dealing with client complaints which ensure that such complaints are dealt with promptly and fairly.

2.12 TRANSFERS OF ACCOUNT

2.12.1 **Definitions.** For the purposes of the By-laws and Rules:

- (a) "account transfer" means the transfer in whole or in part of an account of a client of a Member at the request or with the authority of the client;
- (b) "delivering Member" means in respect of an account transfer the Member from which the account of the client is to be transferred; and
- (c) "receiving Member" means in respect of an account transfer the Member to which the account of the client is to be transferred.

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

3. RULE NO. 3 - FINANCIAL AND OPERATIONS REQUIREMENTS

3.1 CAPITAL

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

- | | |
|---------|---|
| Level 1 | \$25,000 for a Member which is an introducing dealer and which satisfies the requirements of Rule 1.1.6(a) and (b) and is not a Level 2, 3 or 4 Member. |
| Level 2 | \$50,000 for a Member which does not hold client cash, securities or other property. |
| Level 3 | \$75,000 for a Member which does not hold client securities or other property, except client cash in a trust account. |
| Level 4 | \$200,000, for any other Member, including a Member which acts as a carrying dealer in accordance with Rule 1.1.6. |

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

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

3.2 CAPITAL AND MARGIN

3.2.1 **Client Lending and Margin.** No Member or Approved Person shall lend or extend credit to a client or permit the purchase of securities by a client on margin, except as provided for in Rule 3.2.3.

3.2.2 Member Capital.

- (a) Each Member shall maintain capital in respect of its firm business in accordance with the requirements set out in Form 1.
- (b) Each Member shall at all times maintain positive total financial statement capital as calculated in accordance with the requirements set out in Form 1.

3.2.3 **Advancing Mutual Fund Redemption Proceeds.** No Member shall advance funds or extend credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities unless:

- (a) the Member has received prior confirmation of the redemption order from the issuer of the securities;
- (b) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;
- (c) the client has authorized payment to and retention by the Member of redemption proceeds;
- (d) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and
- (e) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.4 **Related Member Guarantees**

- (a) Each Member shall be responsible for and shall guarantee the obligations to clients incurred by each of its related Members (as defined in By-law 1), and each related Member shall be responsible for and shall guarantee the obligations of the Member to its clients on the following basis:
 - (i) where a Member holds an ownership interest in a related Member, the Member shall provide a guarantee in an amount equal to 100% of the Member's total financial statement capital (as determined in accordance with Form 1);
 - (ii) where a Member holds an ownership interest in a related Member, the related Member shall provide a guarantee of the Member in an amount equal to the percentage of the related Member's total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage of ownership interest the Member holds in the related Member; and
 - (iii) where two related Members are related because of a common ownership interest held by the same person(s), each related Member shall provide a guarantee of the other in an amount equal to the percentage of its total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage ownership interest held by the person(s) who holds the common ownership interest.
- (b) A guarantee shall not be required at all or in the amount prescribed in accordance with Rule 3.2.4(a) where the Corporation in its discretion determines that a guarantee is not appropriate.
- (c) A guarantee shall be required in such greater or lesser amount as prescribed in Rule 3.2.4(a) where the Corporation in its discretion determines that such greater or lesser guarantee amount is appropriate.
- (d) A guarantee required pursuant to this Rule 3.2.4 shall be in the form prescribed from time to time by the Corporation.

3.2.5 Notice Regarding Accelerated Payment of Long Term Debt.

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

3.3 SEGREGATION OF CLIENT PROPERTY

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

3.3.2 Cash

- (a) **Trust Account.** All cash held by a Member on behalf of clients shall be held separate and apart from the property of the Member in a designated trust account with a financial institution (which is an acceptable institution for the purposes of Form 1).
- (b) **Determination.** Each Member shall determine on a daily basis the amount of cash it holds for clients and that is required to be held in segregation pursuant to this Rule 3.3.
- (c) **Deficiency.** In the event of a deficiency in the amount of cash required to be held in trust for a client, the Member shall immediately provide from its own funds an amount necessary to correct the deficiency and any unsatisfied obligation to do so shall be immediately charged to the capital of the Member.
- (d) **Notice to Institution.** The Member must advise the financial institution in writing that:
 - (i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a "trust account";
 - (ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the Member; and
 - (iii) the money held in trust may not be used to cover shortfalls in any other accounts of the Member.
- (e) **Commingling.** The Member shall not commingle money for mutual fund transactions with money held in trust for the purchase or sale of other securities or financial products (such as deposit instruments or segregated funds). The Member must maintain separate accounts, which may be designated as trust accounts, for the purchase and sale of such other securities or financial products.
- (f) **Interest Bearing.** The trust account bears interest at rates equivalent to comparable accounts of the financial institution.

- (g) **Use of Funds.** The Member shall not use any money received for the investment of mutual funds or other securities to finance its own operations.
- (h) **Distributions.** The Member must have a system in place to properly distribute on a cash basis interest earned in the mutual fund trust account to either the mutual fund companies for reinvestment or to clients directly.

3.3.3 Securities

- (a) **Internal Locations.** For the purposes of Rule 3.3.1, a Member may hold securities or other investment products within the physical possession or control of the Member segregated and held in trust for clients of the Member, provided that all internal storage locations are designated in the Member's ledger of accounts and the Member has adequate internal accounting controls and systems for safeguarding of securities held for clients.
- (b) **External Locations.** For the purposes of Rule 3.3.1, securities or other investment products held beyond the physical possession of the Member must be segregated and held in trust for clients of a Member, or segregated and held by or for a Member, as the case may be, in acceptable securities locations, provided that the written terms upon which such securities or other investment products are deposited and held beyond the physical possession of the Member include provisions to the effect that:
 - (i) no use or disposition of the securities or products shall be made without the prior written consent of the Member;
 - (ii) certificates representing the securities or products can be delivered to the Member promptly on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities or products can be transferred either from the location or to another person at the location promptly on demand; and
 - (iii) the securities or products are held in segregation for the Member or its clients free and clear of any charge, lien, claim or encumbrance of any kind in favour of the depository or institution holding such securities or products.
- (c) **Bulk Segregation.** A Member, which holds securities or property of clients in segregation in accordance with Rule 3.3.1 may hold securities or property in bulk segregation provided that the Member identifies in its records the amount and kind of each security or property held for each client. The Member shall determine, for all accounts of each client the market value and number of all securities to be held for the client.
- (d) **General Restrictions.** In complying with its obligation to segregate client securities in accordance with Rule 3.3.1, each Member shall ensure that:
 - (i) a segregation deficiency is not knowingly created or increased; and
 - (ii) all securities of clients received by the Member are segregated.

- (e) **Correction of Segregation Deficiencies.** In the event that a segregation deficiency exists, the Member shall expeditiously take the most appropriate action required to settle the segregation deficiency. If for any reason the deficiency has not been settled within 30 days of being discovered, the Member shall immediately purchase the securities or property for the account of the client.

3.4 EARLY WARNING

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

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

- (i) *Capital*
Its risk adjusted capital is less than zero; or
- (ii) *Liquidity*
Its early warning excess is less than zero; or
- (iii) *Profitability*
Its risk adjusted capital at the time of calculation is less than the net loss (before bonuses, income taxes and extraordinary items) for the most recent quarter.
- (iv) *Frequency*
It has been designated in early warning more than two times in the preceding twelve months.
- (v) *Discretionary*
The condition of the Member, in the sole discretion of the Corporation, is not satisfactory for any reason including, without limitation, financial or operating difficulties, problems arising from record keeping conversion or significant changes in clearing methods, the fact that the Member is a new Member or the Member has been late in any filing or reporting required pursuant to the By-laws and Rules.

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

- (i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Corporation a letter containing the following:
 - (A) advice of the fact that any of the circumstances in Rule 3.4.2 are applicable,
 - (B) an outline of the problems associated with the circumstances referred to in (A),

- (C) an outline of the proposal of the Member to rectify the problems identified, and
 - (D) an acknowledgement that the Member is in early warning category and that the restrictions contained in Rule 3.4.2(b)(iv) apply,
- a copy of which letter shall be provided to the Member's auditor;
- (ii) the Corporation shall immediately designate the Member as being in early warning and shall deliver to the chief executive officer and chief financial officer a letter containing the following:
 - (A) advice that the Member is designated as being in early warning,
 - (B) a request that the Member file its next monthly financial report required pursuant to Rule 3.5.1(a) no later than 15 business days or, in the discretion of the Corporation if considered to be practicable, such earlier time following the end of the relevant month,
 - (C) a request that the Member respond to the letter as required under Rule 3.4.2(b)(iii) and confirmation that such response, together with the notice received pursuant to Rule 3.4.2(b)(i), will be forwarded to MFDA Investor Protection Corporation and may be forwarded to any securities commission having jurisdiction over the Member,
 - (D) advice that the restrictions referred to in Rule 3.4.2(b)(iv) shall apply to the Member,
 - (E) such other information as the Corporation shall consider relevant;
 - (iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in Rule 3.4.2(b)(ii), with a copy to be sent to the auditor of the Member, containing the information and acknowledgement required pursuant to Rule 3.4.2(b)(i)(B), (C) and (D), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed;
 - (iv) if and so long as the Member remains designated as being in early warning, it shall not without the prior written consent of the Corporation:
 - (A) reduce its capital in any manner including by redemption, repurchase or cancellation of any of its shares,
 - (B) reduce or repay any indebtedness which has been subordinated with the approval of the Corporation,
 - (C) directly or indirectly make any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company, affiliate or associate,
 - (D) increase its non-allowable assets (as specified by the Corporation) unless a prior binding commitment to do so exists or enter into any

new commitments which would have the effect of materially increasing the non-allowable assets of the Member,

- (v) if and so long as the Member remains designated as being in early warning, it shall continue to file its monthly financial reports within the time specified pursuant to Rule 3.4.2(b)(ii)(B),
 - (vi) after the Member is designated as being in an early warning category, the Corporation may conduct an on-site review of the Member's procedures for monitoring capital on a daily basis and prepare a report as to the results of the review, or
 - (vii) the Corporation may request and the Member shall provide in such time as the Corporation considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Corporation to assess and monitor the financial condition or operations of the Member.
- (c) **Prohibited Transactions.** No Member shall enter into any transaction or take any action, as described in Rule 3.4.2(b)(iv), which, when completed, would have or would reasonably be expected to have the effect on the Member as described in Rule 3.4.2(a), without first notifying the Corporation in writing of its intention to do so and receiving the written approval of the Corporation prior to implementing such transaction or action.

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

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

3.5 FILING REQUIREMENTS

3.5.1 **Monthly and Annual.** Each Member shall:

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

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

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

- (a) the Member has guaranteed the obligations of such related Member and the related Member has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Corporation and unlimited in amount).
- (b) inter-company accounts between the Member and the related Member shall be eliminated;
- (c) any minority interests in the related Member shall be eliminated from the capital calculation; and
- (d) calculations with respect to the Member and the related Member shall be as of the same date.

3.5.3 **Members' Auditors**

- (a) **Examination.** Every Member's auditor shall examine the accounts of the Member as at the date referred to in Rule 3.5.1 and shall make a report thereon in such form as the Corporation may from time to time prescribe. Each Member's auditor shall also make such additional examinations and reports as the Corporation may from time to time request or direct.
- (b) **Standards.** The Member's auditor shall conduct his or her examination of the accounts of the Member in accordance with Canadian generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed. Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Rule 3.6.
- (c) **Access to Books and Records.** Every Member's auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined or its affiliates or its related Members, and no Member, affiliate or related company, as the case may be, shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's auditor for the purpose of such examination.

3.5.4 Assessments

- (a) **Excessive Attention.** If at any time the Corporation is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Corporation and that it would be in the interests of the Corporation that the Corporation be reimbursed by such Member, the Corporation shall have the power to impose an assessment against such Member.
- (b) **Late Filing.** Each Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this Rule 3 within the times prescribed by this Rule 3, the Corporation or the terms of such report, form, financial statement or other information, as the case may be.

3.6 AUDIT REQUIREMENTS

3.6.1 **Standards.** The audit under Rule 3.5 shall be conducted in accordance with Canadian generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It shall include all audit procedures necessary under the circumstances to support the opinions which must be expressed in the Member's auditor's reports of Parts I and II of Form 1. Because of the nature of the industry, the substantive audit procedures relating to the financial position must be carried out as of the audit date and not as of an earlier date, notwithstanding that the audit is otherwise conducted in accordance with Canadian generally accepted auditing standards.

3.6.2 Scope

- (a) *Tests.* The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedure which any Member's auditor would deem necessary under the circumstances. For purposes of this Rule tests fall into two basic categories (as described in CICA Handbook):
 - (i) specific item tests, whereby the auditor examines individual items which he or she considers should be examined because of their size, nature or method of recording; and
 - (ii) representative item tests, whereby the auditor's objective is to examine an unbiased selection of items.

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

In determining the extent of the tests appropriate in sub-sections (i), (ii) and (iii) of (b) below, the Member's auditor should consider the adequacy of the system of internal control and the level of materiality appropriate in the circumstances so that in the auditor's professional judgement the risk of not detecting a material

misstatement, whether individually or in aggregate is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning excess).

- (b) *Audit Procedures.* The Member's auditor shall as of the audit date:
- (i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and substantiate the subsidiary ledger totals with their respective control accounts (see Rule 3.6.4 below relating to Electronic Data Processing);
 - (ii) account for, by physical examination and comparison with the books and records, all securities in the physical possession of the Member;
 - (iii) review the reconciliation of all mutual fund companies and financial institutions where a Member operates a nominee name account and review the balancing of all positions. Where a position or account is not in balance according to the records, ascertain that an adequate provision has been made in accordance with the Notes and Instructions for out of balance positions embodied in Statement B of Form 1 for any potential loss;
 - (iv) review bank reconciliations and by appropriate audit procedures substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;
 - (v) where a Member operates a nominee name account or has its own securities or investment products, ensure that all custodial agreements are in place for those lodged with acceptable locations and that such agreements satisfy the minimum requirements of the Corporation;
 - (vi) obtain written confirmation with respect to the following:
 - (A) bank balances and other deposits;
 - (B) cash, nominee name positions and deposits with clearing houses and like organizations and cash and nominee name positions with mutual fund companies and financial institutions;
 - (C) cash and investments loaned or borrowed (including subordinated loans) together with details of collateral received or pledged, if any;
 - (D) accounts with brokers or dealers;
 - (E) accounts of directors, partners or officers of the Member held by the Member where the Member operates a nominee name account;
 - (F) accounts of clients where a Member operates a nominee name account;
 - (G) statements from the Member's lawyers as to the status of lawsuits and other legal matters pending which, if possible, should include an estimate of the extent of the liabilities so disclosed; and

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

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been sent by, and returned directly to, the Member's auditor and second requests are similarly sent to those not replying to the initial request. Appropriate alternative verification procedures must be used where replies to second requests have not been received. For accounts mentioned in (D) and (F) above, the Member's auditor shall (1) select specific accounts for positive confirmation based on their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and other characteristics such as accounts in dispute, and (2) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (D) and (F) above that are not confirmed positively, the Member's auditor shall send statements with a request that any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;

- (vii) subject the Statements in Part I and Schedules in Part II of Form 1 to audit tests and/or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (deficiency) of risk adjusted capital are calculated in accordance with the Rules and Form 1 in all material respects in relation to the financial statements taken as a whole;
- (viii) obtain a letter of representation from the senior officers of the Member with respect to the fairness of the financial statements including among other things the existence of contingent assets, liabilities and commitments.
- (ix) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Cash and Securities in Form 1.

3.6.3 Additional Reporting. In addition, the Member's auditor shall:

- (a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in Form 1; and
- (b) report on any subsequent events, to date of filing, which have had a material adverse effect on the excess (deficiency) of risk adjusted capital.

3.6.4 Systems Review. The Member's auditors' review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above Audit Requirements should encompass any in-house or service bureau EDP operations.

As a result of such review and evaluation the Member's auditor may be able to reduce the extent of detailed checking of clients and other account statements to trial balances and security position records.

- 3.6.5 **Retention.** Copies of Form 1 and all audit working papers shall be retained by the Member's auditor for seven years. The two most recent years shall be kept in a readily accessible location. All working papers shall be made available for review by the Corporation and the MFDA Investor Protection Corporation and the Member shall direct its auditor to provide such access on request.
- 3.6.6 **Report to Corporation.** If the Member's auditor observes during the regular conduct of his or her audit any material breach of the By-laws or Rules pertaining to the calculation of the Member's financial position, handling and custody of securities and maintenance of adequate records he or she shall make a report to the Corporation.
- 3.6.7 **Reliance.** The reports and audit opinions required in respect of a Member under this Rule 3.6 shall be addressed to the Corporation and the MFDA Investor Protection Corporation in conjunction with the Member who shall be entitled to rely on them for all purposes.
- 3.6.8 **Qualification.** The reports and audit opinions referred to in this Rule 3.6 shall be signed by an engagement partner on behalf of the Member's auditor who shall (i) be authorized to do so in accordance with applicable legislation in the jurisdiction in which the principal office of the Member is located, (ii) be acceptable to the Corporation in accordance with By-law 11.2.1, and (iii) have acknowledged in writing to the Corporation and the Member that it is familiar with the then current By-laws, Rules, Policies and Forms as they relate to the matters required to be reported on therein.

4. RULE NO. 4 – INSURANCE

4.1 FINANCIAL INSTITUTION BOND

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

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

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

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

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

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

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

4.2 NOTICE OF TERMINATION

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

- (i) The underwriter shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:
 - (A) the expiration of the Bond period specified;
 - (B) cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;

- (C) the taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials; or
 - (D) taking over of the insured by another institution or entity.
- (ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

4.3 TERMINATION OR CANCELLATION

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

4.4 AMOUNTS REQUIRED

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

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

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

4.4.2 **Base Amount.** For the purposes of this Rule 4.4, the term "base amount" shall mean the greater of:

- (a) the net value of cash and securities held by the Member on behalf of clients; and
- (b) the total allowable assets of the Member determined in accordance with Statement A of Form 1.

4.5 PROVISOS

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

- (a) the amount of insurance required to be maintained by a Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement;
- (b) should there be insufficient coverage, a Member shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the

dates of completion of the monthly operations questionnaires and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the Corporation;

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

4.6 QUALIFIED CARRIERS

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

4.7 GLOBAL FINANCIAL INSTITUTION BONDS

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

- (a) the Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Member; and
- (b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of
 - (i) the Member, or
 - (ii) any of the Member's subsidiaries whose financial results are consolidated with those of the Member, or
 - (iii) a holding company of the Member provided that the holding company does not carry on any business or own any investments other than its interest in the Member,

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

5. RULE NO. 5 - BOOKS, RECORDS & REPORTING

5.1 REQUIREMENT FOR RECORDS

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

- (a) blotters, or other records, containing an itemized daily record of:
 - (i) all purchases and sales of securities;
 - (ii) all receipts and deliveries of securities, including certificate numbers;
 - (iii) all receipts and disbursements of cash;
 - (iv) all other debits and credits, the account for which each transaction was effected;
 - (v) the name of the securities;
 - (vi) the class or designation of the securities;
 - (vii) the number or value of the securities;
 - (viii) the unit and aggregate purchase or sale price; and
 - (ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;
- (b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:
 - (i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;
 - (ii) the account for which entered or received; and
 - (iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation;
- (c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;
- (d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

- (e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;
- (f) all cheque books, bank statements, cancelled cheques and cash reconciliations;
- (g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;
- (h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;
- (i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and
- (j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3.

5.2 STORAGE MEDIUM

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

- (a) such method of record keeping is not prohibited under any applicable legislation;
- (b) there are appropriate internal controls in place, to guard against the risk of falsification of the information recorded;
- (c) such method provides a means to furnish promptly to the Corporation upon request legible, true and complete copies of those records of the Member which are required to be preserved; and
- (d) the Member has suitable back-up and disaster recovery programs.

5.3 CLIENT REPORTING

5.3.1 Delivery of Account Statement

- (a) Each Member shall send an account statement to each client in accordance with the following minimum standards:
 - (i) once every 12 months for a client name account;
 - (ii) once a month for nominee name accounts of clients where there is an entry during the month and a cash balance or security position; and

- (iii) quarterly for nominee name accounts where no entry has occurred in the account and there is a cash balance or security position at the end of the quarter.
- (b) A Member may not rely on any other person (including an Approved Person) to send account statements as required by this Rule.
- (c) Notwithstanding the provisions of 5.3.1(b), a Member may rely on the trustee administering a self-directed registered plan to send the account statement required by paragraph (a)(i) where the following conditions are met:
 - (i) The Member does not act as agent for the trustee for the registered plans;
 - (ii) The trustee meets the definition of “Acceptable Institution” as defined in Form 1;
 - (iii) There is a services agreement in place between the Member and the trustee which complies with the requirements of MFDA Rule 1.1.3 and provides that the trustee is responsible for sending account statements to clients of the Member that comply with the requirements of MFDA Rule 5;
 - (iv) There is clear disclosure about which trades are placed by the Member;
 - (v) Clear disclosure must be provided on the account statement regarding which securities positions referred to on the statement are eligible for coverage by the MFDA Investor Protection Corporation and which are not (once the Corporation is offering coverage);
 - (vi) The Member’s full legal name must appear on the account statement together with the name of the trustee; and
 - (vii) The Member must receive copies of the statements to ensure that the information contained therein matches its own information regarding the transactions it executes.
- (d) Notwithstanding the provisions of Rule 5.3.1(b), where a Member is affiliated with a fund manager and in connection with a specific client account is selling only the mutual fund securities of an issuer managed by such affiliated fund manager for that client account, the Member may rely on the affiliated fund manager to send the account statement required by paragraph (a)(i) for that specific account.

5.3.2 Automatic Payment Plans. Notwithstanding the provisions of Rule 5.3.1 (a)(ii), where a Member holds client assets in nominee name and the only entry in the client's account in a month relates to the client's participation in:

- (a) any automatic payment plan that provides for systematic trading in the securities of a mutual fund on a monthly or more frequent basis, or
- (b) other automatic entries such as dividends and reinvested distributions,

the Member shall send an account statement to the client quarterly.

5.3.3 **Content of Account Statement.** Each account statement must contain the following information:

- (a) for nominee name accounts or accounts where the Member acts as an agent for the trustee for the purposes of administering a self-directed registered retirement savings or similar plan:
 - (i) the opening balance;
 - (ii) all debits and credits;
 - (iii) the closing balance;
 - (iv) the quantity and description of each security purchased, sold or transferred and the dates of each transaction, and;
 - (v) the quantity, description and market value of each security position held for the account;
- (b) for client name accounts:
 - (i) all debits and credits;
 - (ii) the quantity and description of each security purchased, sold or transferred and the dates of each transaction; and
 - (iii) for automatic payment plan transactions, the date the plan was initiated, a description of the security and the initial payment amount made under the plan.
- (c) for all accounts:
 - (i) the type of account;
 - (ii) the account number;
 - (iii) the date the statement was issued;
 - (iv) the period covered by the statement;
 - (v) the name of the Approved Person(s) servicing the account, if applicable; and
 - (vi) the name, address and telephone number of the Member.

5.3.4 **Member Business Only.** Only transactions executed by the Member may appear on the statement of account required pursuant to Rule 5.3.3.

5.4 TRADE CONFIRMATIONS

5.4.1 **Delivery of Confirmations.** Every Member who has acted as principal or agent in connection with any trade in a security shall promptly send by prepaid mail or deliver to the client a written confirmation of the transaction containing the information required under Rule 5.4.3. The Member need not send to its client a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3.

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

5.4.3 **Content.** Every confirmation of trade sent to a client must set forth the following information:

- (a) the quantity and description of the security;
- (b) the price per share or unit at which the trade was effected;
- (c) the consideration;
- (d) the name of the Member;
- (e) whether or not the Member is acting as principal or agent;
- (f) if acting as agent, the name of the person or company from or to or through whom the security was bought or sold;
- (g) the type of the account through which the trade was effected;
- (h) the commission, if any, charged in respect of the trade;
- (i) the amount deducted by way of sales, service and other charges;
- (j) the amount, if any, of deferred sales charges;
- (k) the name of the Approved Person, if any, in the transaction;
- (l) the date of the trade; and
- (m) the settlement date.

5.5 ACCESS TO BOOKS AND RECORDS

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

5.6 RECORD RETENTION

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