

## Checklist of Type 1 IB / CB Arrangement

Rule	Description	In compliance (Yes/No/NA)	Comments
2403	<p>(1) A <i>Dealer Member</i> that wants to become an <i>introducing broker</i> may enter into one of the following <i>introducing broker / carrying broker arrangements</i> with another <i>Dealer Member</i>:</p> <ul style="list-style-type: none"> <li>(i) a Type 1 or 2 <i>introducing broker/carrying broker arrangement</i> for all of its <i>Dealer Member related activities</i>,</li> <li>(ii) a Type1 or 2 <i>introducing broker/carrying broker arrangement</i> for all of its <i>Dealer Member related activities</i> other than trading in <i>futures contracts</i> and <i>futures contract options</i>, or</li> <li>(iii) a Type3 or 4 <i>introducing broker/carrying broker arrangement</i> for one or more of its <i>Dealer Member related activities</i> business lines.</li> </ul>		
2404	<p>(1) A <i>Dealer Member</i> that is an <i>introducing broker</i> under a Type 1 <i>introducing broker/carrying broker arrangement</i> with another <i>Dealer Member</i>:</p> <ul style="list-style-type: none"> <li>(i) must not enter into any additional <i>introducing broker / carrying broker arrangements</i> with another <i>Dealer Member</i> unless the arrangement is a Type 1 <i>introducing broker/carrying broker arrangement</i> or Type 2 <i>introducing broker/carrying broker arrangement</i> that provides back office services exclusive to trading in <i>futures contracts</i> and <i>futures contract options</i>,</li> <li>(ii) must not self-clear any part of its <i>Dealer Member related activities</i> other than self-clearing trading in <i>futures contracts</i> and <i>futures contracts options</i>, and</li> <li>(iii) must use its <i>carrying broker's facilities</i> for its principal trading, settlement, and securities custody.</li> </ul>		

2407	<p>(1) A <i>Dealer Member</i> that is an <i>introducing broker</i> may enter into an arrangement permitted within sections 2403 through 2406 with another <i>Dealer Member</i> if both parties enter into a written <i>introducing broker / carrying broker</i> agreement:</p> <ul style="list-style-type: none"> <li>(i) in a form acceptable to the <i>Corporation</i>,</li> <li>(ii) that specifies the type of arrangement being entered into as a Type 1, Type 2, Type 3 or Type 4 <i>introducing broker/carrying broker arrangement</i>,</li> <li>(iii) whose terms comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and</li> <li>(iv) which is approved by the <i>Corporation</i> in advance of it coming into effect.</li> </ul>		
2410	<p>The parties to a Type 1 <i>introducing broker / carrying broker arrangement</i> between two <i>Dealer Members</i> must comply with the following requirements:</p> <p>(1) Minimum capital requirement</p> <ul style="list-style-type: none"> <li>(i) The <i>introducing broker</i> must maintain at all times minimum capital of \$75,000 for the purposes of calculating <i>risk adjusted capital</i>.</li> </ul>		
	<p>(2) Margin requirements to be provided by the <i>introducing broker</i></p> <ul style="list-style-type: none"> <li>(i) The <i>introducing broker</i> must maintain the required margin for principal business it introduces to the <i>carrying broker</i>.</li> </ul>		

	<p>(3) Margin requirements to be provided by the <i>carrying broker</i></p> <p>(i) The <i>carrying broker</i> must maintain the required margin:</p> <p>(a) for client business it carries for the <i>introducing broker</i>, and</p> <p>(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the <i>introducing broker</i> in accordance with the margin requirements for an account with another <i>regulated entity</i>, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.</p>		
	<p>(4) Offsets of <i>carrying broker</i> margin requirements against deposits</p> <p>(i) The <i>carrying broker</i> may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:</p> <p>(a) the margin requirement,</p> <p>(b) the loan value of any <i>introducing broker</i> deposits held by the <i>carrying broker</i>, and</p> <p>(c) the <i>introducing broker's</i> excess risk adjusted capital. Where a reduction is taken, the <i>carrying broker</i> must promptly notify the <i>introducing broker</i>.</p>		
	<p>(5) Reporting client balances</p> <p>(i) When calculating risk adjusted capital, the <i>carrying broker</i> must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced by the <i>introducing broker</i>. The <i>introducing broker</i> must not report these accounts.</p>		
	<p>(6) Net client balances / funding</p> <p>(i) The <i>carrying broker</i> must meet financing requirements for client accounts introduced by the <i>introducing broker</i>.</p>		

	<p>(7) Deposits provided to the <i>carrying broker</i> by the <i>introducing broker</i></p> <p>(i) The <i>carrying broker</i> must:</p> <ul style="list-style-type: none"> <li>(a) segregate security deposits provided by the introducing broker,</li> <li>(b) hold cash deposits in a separate bank account in trust for the introducing broker, and</li> <li>(c) report all deposits it receives from the introducing broker as a liability on its Form 1 and Monthly Financial Report.</li> </ul>		
	<p>(ii) The <i>introducing broker</i> must:</p> <ul style="list-style-type: none"> <li>(a) report as a non-allowable asset on the introducing broker's Form 1 and Monthly Financial Report: <ul style="list-style-type: none"> <li>(I) any portion of a deposit that a carrying broker has used to offset its margin requirements under subsection 2410(4), and</li> <li>(II) any portion of a deposit that is impaired in value because the <i>carrying broker</i> carries client accounts with unsecured debit balances,</li> </ul> </li> <li>and,</li> <li>(b) report as an allowable asset on the introducing broker's Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).</li> </ul>		
	<p>(8) Concentration calculations</p> <p>(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the carrying broker must include, and the introducing broker must not include, all client positions the carrying broker maintains for the introducing broker.</p>		

	<p>(9) Segregating client securities</p> <p>(i) The <i>carrying broker</i> must segregate securities for clients introduced by the <i>introducing broker</i> in accordance with <i>Corporation requirements</i> relating to <i>segregation</i>.</p>		
	<p>(10) Free credit segregation</p> <p>(i) The <i>carrying broker</i> must segregate free credits for client accounts introduced by the <i>introducing broker</i> in accordance with <i>Corporation requirements</i> including, but not limited to, Statement D of Form 1.</p>		
	<p>(11) Insurance coverage requirements of the <i>introducing broker</i></p> <p>(i) The <i>introducing broker</i> must:</p> <p>(a) include all accounts introduced to the <i>carrying broker</i>:</p> <p>(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and</p> <p>(II) when determining adequate insurance coverage levels for registered mail under section 4455,</p> <p>(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4458, and</p> <p>(c) maintain adequate insurance for registered mail specified under section 4455.</p>		

	<p>(12) Insurance coverage requirements of the <i>carrying broker</i></p> <p>(i) The <i>carrying broker</i> must:</p> <p>(a) include all accounts it carries for the <i>introducing broker</i>:</p> <p>(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and</p> <p>(II) when determining adequate insurance coverage levels for registered mail under section 4455,</p> <p>(b) maintain Financial Institution Bond insurance coverage for the types of losses specified under section 4456 and in the amounts that meet the minimum coverage levels specified in section 4457, and</p> <p>(c) maintain adequate insurance for registered mail specified under section 4455.</p>		
	<p>(13) Client account opening required disclosure</p> <p>(i) At the time of opening a client account the <i>introducing broker</i> must:</p> <p>(a) advise the client of:</p> <p>(I) its relationship to the <i>carrying broker</i>, and</p> <p>(II) the client's relationship to the <i>carrying broker</i>, and</p> <p>(b) obtain from the client a Corporation approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).</p>		
	<p>(14) Parties to margin and <i>guarantee</i> documents</p> <p>(i) The <i>introducing broker</i> and the <i>carrying broker</i> must both be parties to any margin agreements and <i>guarantee</i> documents.</p>		

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

	<p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The introducing broker must report all its principal positions carried by a carrying broker as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The carrying broker must report the balance of the principal trading account the introducing broker has with the carrying broker on its Form 1 and Monthly Financial Report.</p>		
2460	<p>(1) <i>Dealer Member's</i> arrangement under which employees of its <i>affiliate</i> handle securities clearing and settlement, maintain <i>records</i>, or perform operational functions is not considered an <i>introducing / carrying broker arrangement</i> for the purposes of sections 2401 through 2480 provided the custodial functions are handled on a segregated basis according to <i>Corporation requirements</i> and the <i>affiliate</i> is:</p> <p>(i) a <i>chartered bank</i>,</p> <p>(ii) an insurance company governed by federal or provincial insurance legislation, or</p> <p>(iii) a loan or trust company governed by federal or provincial loan and trust company legislation.</p>		
2461	<p>(1) A <i>Dealer Member's clearing arrangement</i> under which it acts as the clearing broker for another dealer is permitted and is not considered an <i>introducing broker / carrying broker arrangement</i> for the purposes of sections 2401 through 2480, provided that the arrangement also qualifies as a clearing arrangement under the rules of the relevant exchange or self-regulatory organization in the jurisdiction of the other dealer.</p>		

2480	<p>(1) A <i>Dealer Member</i> must not enter into an <i>introducing broker / carrying broker arrangement</i> with any person except with:</p> <ul style="list-style-type: none"><li>(i) another <i>Dealer Member</i>, in accordance with the requirements in sections 2403 through 2425,</li><li>(ii) a <i>Mutual Fund Dealer Member</i>, in accordance with the requirements in sections 2430 and 2431, or</li><li>(iii) a foreign <i>affiliate dealer</i>, in accordance with the requirements in sections 2435 and 2436.</li></ul>		
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