

## Checklist for Type 2 IB / CB Arrangements

Rule	Description	In compliance (Yes/No)	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>		
2405	<p>(1) A <i>Dealer Member</i> that is an <i>introducing broker</i> under a Type 2 <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) may use brokers other than its <i>carrying broker</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>		
2415	<p>The parties to a Type 2 <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 \$250,000 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 2415(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 <i>risk adjusted capital</i>.</p> <p>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 <i>risk adjusted capital</i>, 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 <i>introducing broker</i>,</li> <li>(b) hold cash deposits in a separate bank account in trust for the <i>introducing broker</i>, and</li> <li>(c) report all deposits it receives from the <i>introducing broker</i> 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 <i>introducing broker's</i> Form 1 and Monthly Financial Report: <ul style="list-style-type: none"> <li>(I) any portion of a deposit that a <i>carrying broker</i> has used to offset its margin requirements under subsection 2415(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 <i>introducing broker's</i> Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2415(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 <i>carrying broker</i> must include, and the <i>introducing broker</i> must not include, all client positions the <i>carrying broker</i> maintains for the <i>introducing broker</i>.</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 <i>Corporation</i> approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(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) The <i>introducing broker</i> must provide either ongoing or annual disclosure of its <i>introducing broker / carrying broker</i> relationship to clients as follows:</p> <p>(a) where the <i>introducing broker</i> elects to provide ongoing relationship disclosure, the <i>introducing broker</i> and <i>carrying broker</i> 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 <i>introducing broker / carrying broker</i> relationship is not required, or</p> <p>(b) where the <i>introducing broker</i> elects to provide annual relationship disclosure:</p> <p>(I) the <i>introducing broker</i> must show its name on all client account contracts, statements, correspondence and other documents, and</p> <p>(II) the <i>introducing broker</i> must provide an annual written disclosure to each of its clients whose accounts are carried by a <i>carrying broker</i> outlining the relationship between:</p> <p>(A) the <i>introducing broker</i> and the <i>carrying broker</i>, and</p> <p>(B) the client and the <i>carrying broker</i>.</p> <p>However, if the name and role of each of the <i>introducing broker</i> and the <i>carrying broker</i> is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2415(15)(i)(b)(II) is not required.</p>		
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	<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) For each account it introduces to the <i>carrying broker</i>, the <i>introducing broker</i> is responsible for compliance with all non-financial <i>Corporation requirements</i> 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) The <i>introducing broker</i> may accept a cheque from a client in the name of the <i>introducing broker</i> or <i>carrying broker</i>, provided that the cheque is deposited into a bank account in the <i>carrying broker's</i> name or forwarded on to the <i>carrying broker</i> on the day it is received by the <i>introducing broker</i> or the next <i>business day</i>.</p>		
	<p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The <i>carrying broker</i> must report the balance of the principal trading account the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>		

2460	<p>(1) A <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> <ul style="list-style-type: none"> <li>(i) a <i>chartered bank</i>,</li> <li>(ii) an insurance company governed by federal or provincial insurance legislation, or</li> <li>(iii) a loan or trust company governed by federal or provincial loan and trust company legislation.</li> </ul>		
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 <i>person</i> 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>		