

## Checklist for Type 3 IB / CB Arrangements

Rule	Description	In compliance (Yes/No/N/A)	Comments
	<b>PART A.1 - GENERAL REQUIREMENTS</b>		
<b>2403</b>	<p><b>Arrangements that may be executed</b></p> <p>(1) A Dealer Member 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 Dealer Member:</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 Dealer Member related activities,</li> <li>(ii) a Type 1 or 2 <i>introducing broker/carrying broker arrangement</i> for all of its Dealer Member related activities other than trading in <i>futures contracts</i> and <i>futures contract options</i>, or</li> <li>(iii) a Type 3 or 4 <i>introducing broker/carrying broker arrangement</i> for one or more of its Dealer Member related activities business lines.</li> </ul>		
<b>2406</b>	<p><b>Additional conditions that apply to an introducing broker under either a Type 3 introducing broker/carrying broker or a Type 4 introducing broker/carrying broker arrangement</b></p> <p>(1) A Dealer Member that is an <i>introducing broker</i> under a Type 3 <i>introducing broker/carrying broker arrangement</i> or Type 4 <i>introducing broker/carrying broker arrangement</i> with another Dealer Member:</p> <ul style="list-style-type: none"> <li>(i) must not enter into any Type 1 or Type 2 <i>introducing broker/carrying broker arrangements</i> for one or more of its remaining Dealer Member related activities business lines,</li> <li>(ii) may, where a business case can be made, enter into additional Type 3 <i>introducing broker/carrying broker arrangement</i> or Type 4 <i>introducing broker/carrying broker arrangements</i> for one or more of its remaining Dealer Member related activities business lines,</li> </ul>		

	<ul style="list-style-type: none"> <li>(iii) may self-clear one or more of its remaining Dealer Member related activities business lines, and</li> <li>(iv) may use brokers other than its carrying broker for its principal trading, settlement, and securities custody.</li> </ul>		
<b>2407</b>	<p><b>Requirement for an agreement</b></p> <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>		
	<b>PART A.4 - SPECIFIC REQUIREMENTS FOR TYPE 3 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS</b>		
<b>2420</b>	<p><b>Type 3 introducing broker/carrying arrangement – requirements</b></p> <p>The parties to a Type 3 <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: <ul style="list-style-type: none"> <li>(a) for principal business it introduces to the <i>carrying broker</i>, and</li> <li>(b) for client business it introduces to the <i>carrying broker</i>.</li> </ul> </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 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 2420(3) by the lesser of the following amounts:</p> <p>(a) the margin requirement, and</p> <p>(b) the loan value of any <i>introducing broker</i> deposits held by the <i>carrying broker</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>introducing broker</i> must report on Statement A and Schedule 4 of Form 1 and Monthly Financial Report all <i>client accounts</i> introduced to the <i>carrying broker</i>. The <i>carrying broker</i> must not report those accounts.</p> <p>(ii) The <i>carrying broker</i> must report on its Form 1 and Monthly Financial Report one balance owing to or from the <i>introducing broker</i>, representing client accounts it carries for the <i>introducing broker</i>.</p> <p>(iii) Although the <i>carrying broker</i> reports just one balance, its obligations and liabilities to each client whose account it carries for the <i>introducing broker</i> are not released, discharged, limited, or otherwise affected.</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 any portion of a deposit that a <i>carrying broker</i> has used to offset its margin requirements under subsection 2420(4), 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 2420(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>introducing broker</i> must include, and the <i>carrying 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 segregation.</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 4457 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>(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 4457, 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</p>		

	<p>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 advise the client of:</p> <p>(a) its relationship to the <i>carrying broker</i>, and</p> <p>(b) the client's relationship to the <i>carrying broker</i>.</p>		
	<p>(14) Parties to margin and guarantee documents</p> <p>(i) The <i>introducing broker</i> and the <i>carrying broker</i> must both be parties to any margin agreements and guarantee 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 relationship</i> 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 relationship</i> 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> outline 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 2420(15)(i)(b)(II) 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) 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> may accept or handle client funds in the form of money.</p> <p>(ii) An <i>introducing broker</i> may facilitate transactions for a client account carried by a <i>carrying broker</i> by accepting client cheques:</p> <p>(a) in the <i>introducing broker's</i> name, and depositing those cheques in a bank account in the <i>introducing broker's</i> name for eventual deposit to an account in the <i>carrying broker's</i> name, or</p> <p>(b) in the <i>carrying broker's</i> name for deposit directly into a bank account in the <i>carrying broker's</i> name.</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>		

	(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.		
	<b>PART D - PERMITTED ARRANGEMENTS THAT ARE NOT CONSIDERED TO BE INTRODUCING BROKER/CARRYING BROKER ARRANGEMENTS</b>		
2460	<p><b>Certain arrangements executed with a Canadian financial institution on affiliate</b></p> <p>(1) A <i>Dealer Member's</i> arrangement under which employees of its <i>affiliate</i> handle securities clearing and settlement, maintain records, 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><b>Certain arrangements with other dealers</b></p> <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>		
	<b>PART E - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS</b>		
2480	<p><b>Prohibited introducing broker / carrying broker arrangements</b></p> <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> </ul>		

	<p>(ii) a <i>Mutual Fund Dealer Member</i>, in accordance with the requirements in sections 2430 and 2431, or</p> <p>(iii) a foreign <i>affiliate</i> dealer, in accordance with the requirements in sections 2435 and 2436.</p>		
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