

Checklist for Type 4 IB / CB Arrangements

Rule	Description	In compliance (Yes/No/NA)	Comments
	PART A.1 - GENERAL REQUIREMENTS		
2403	<p>Arrangements that may be executed</p> <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"> (i) a Type 1 or 2 <i>introducing broker/carrying broker arrangement</i> for all of its <i>Dealer Member related activities</i>, (ii) a Type 1 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 (iii) a Type 3 or 4 <i>introducing broker/carrying broker arrangement</i> for one or more of its <i>Dealer Member related activities</i> business lines. 		
2406	<p>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</p> <p>(1) A <i>Dealer Member</i> 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 <i>Dealer Member</i>:</p> <ul style="list-style-type: none"> (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 <i>Dealer Member related activities</i> business lines, (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 		

	<p>more of its remaining Dealer Member related activities business lines,</p> <p>(iii) may self-clear one or more of its remaining Dealer Member related activities business lines, and</p> <p>(iv) may use brokers other than its carrying broker for its principal trading, settlement, and securities custody.</p>		
2407	<p>Requirement for an agreement</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> <p>(i) in a form acceptable to the <i>Corporation</i>,</p> <p>(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>,</p> <p>(iii) whose terms comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and</p> <p>(iv) which is approved by the <i>Corporation</i> in advance of it coming into effect.</p>		
	<p>PART A.5 - SPECIFIC REQUIREMENTS FOR TYPE 4 INTRODUCING BROKER / CARRYING BROKER ARRANGEMENTS</p>		
2425	<p>Type 4 introducing broker/carrying broker arrangement – requirements</p> <p>The parties to a Type 4 <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> <p>(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>.</p>		

	<p>(2) Margin requirements to be provided by the <i>introducing broker</i></p> <p>(i) The <i>introducing broker</i> must maintain the required margin:</p> <p>(a) for principal business it introduces to the <i>carrying broker</i>, and</p> <p>(b) for client business it introduces to the <i>carrying broker</i>.</p>		
	<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 2425(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 the 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>introducing broker</i> must meet financing requirements for client accounts it introduces to the <i>carrying 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"> (a) segregate security deposits provided by the <i>introducing broker</i>, (b) hold cash deposits in a separate bank account in trust for the <i>introducing broker</i>, and (c) report all deposits it receives from the <i>introducing broker</i> as a liability on its Form 1 and Monthly Financial Report. <p>(ii) The <i>introducing broker</i> must:</p> <ul style="list-style-type: none"> (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 2425(4), and 		

	(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 2425(7)(ii)(a).		
	(8) Concentration calculations (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> .		
	(9) Segregating client securities (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.		
	(10) Free credit segregation (i) The <i>introducing broker</i> must segregate free credits for client accounts it introduces to the <i>carrying broker</i> in accordance with <i>Corporation requirements</i> including, but not limited to, Statement D of Form 1.		
	(11) Insurance coverage requirements of the <i>introducing broker</i> (i) The <i>introducing broker</i> must: (a) include all accounts introduced to the <i>carrying broker</i> : (l) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and		

	<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 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 <i>guarantee</i> documents</p> <ul style="list-style-type: none"> (i) The <i>introducing broker</i> and the <i>carrying broker</i> or the <i>introducing broker</i> itself, may be party to any margin agreements and <i>guarantee</i> documents. (ii) Where the margin agreements or <i>guarantee</i> documents are only executed between the <i>introducing broker</i> and the client, the <i>introducing broker / carrying broker</i> agreement must provide that the <i>carrying broker</i> may protect its interest in unpaid securities of the <i>introducing broker</i> when the <i>introducing broker</i> becomes insolvent, bankrupt, or ceases to be a <i>Dealer Member</i>. 		
	<p>(15) Disclosure on contracts, statements and correspondence</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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 (b) where the <i>introducing broker</i> elects to provide annual relationship disclosure: <ul style="list-style-type: none"> (I) the <i>introducing broker</i> must show its name on all client account contracts, statements, correspondence and other documents, (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>(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 2425(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>		

	(b) in the <i>carrying broker's</i> name for deposit directly into a bank account in the <i>carrying broker's</i> name.		
	(19) Reporting of <i>introducing broker</i> principal positions (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. (ii) The <i>carrying broker</i> must report the balance of the principal trading account the <i>introducing broker</i> has with the carrying broker on its Form 1 and Monthly Financial Report		
	PART D - PERMITTED ARRANGEMENTS THAT ARE NOT CONSIDERED TO BE INTRODUCING BROKER/CARRYING BROKER ARRANGEMENTS		
2460	Certain arrangements executed with a Canadian financial institution affiliate (1) A <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: (i) a <i>chartered bank</i> , (ii) an insurance company governed by federal or provincial insurance legislation, or (iii) a loan or trust company governed by federal or provincial loan and trust company legislation.		
2461	Certain arrangements with other dealers (1) A <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.		
	PART E - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS		
2480	<p>Prohibited introducing broker / carrying broker arrangements</p> <p>(1) A Dealer Member 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"> (i) another <i>Dealer Member</i>, in accordance with the requirements in sections 2403 through 2425, (ii) a <i>Mutual Fund Dealer Member</i>, in accordance with the requirements in sections 2430 and 2431, or (iii) a foreign <i>affiliate dealer</i>, in accordance with the requirements in sections 2435 and 2436. 		