

Re Lakeshore Securities

IN THE MATTER OF:

The Rules of the Investment Industry Regulatory Organization of Canada

and

The Universal Market Integrity Rules

and

Lakeshore Securities Inc.

2014 IIROC 59

Investment Industry Regulatory Organization of Canada
Hearing Panel (Ontario District)

Heard: October 15, 2014

Decision: October 15, 2014

Reasons for Decision: December 19, 2014

Hearing Panel:

The Honourable Robert P. Armstrong, Q.C. – Chair, David W. Kerr, C.F.A.

Appearances:

Andrew Werbowski, IIROC Enforcement Counsel

Laura Paglia, Counsel for the Respondent

REASONS FOR APPROVAL OF SETTLEMENT AGREEMENT

Introduction

¶ 1 A hearing was held in Toronto on October 15, 2014 to approve a settlement agreement between the Investment Industry Regulatory Organization of Canada (IIROC) and Lakeshore Securities Inc. (Lakeshore). The panel scheduled to hear the matter consisted of The Honourable Robert P. Armstrong, Q.C. (Chair), Mr. Peter Bailey and Mr. David W. Kerr, C.F.A. Unfortunately, at the opening of the hearing (10:00 AM) Mr. Bailey was not present. It later turned out that Mr. Bailey was held up in traffic for over an hour. The two other members of the panel waited until 10:30AM and commenced the hearing. Both parties consented to Messrs. Armstrong and Kerr proceeding to conduct the hearing. We are satisfied that we had authority to do so in accordance with s.1.8(1) of Transition Rule No. 1 made pursuant to By-Law 13.1 of IIROC which provides:

1.8 Provisions for Hearing Panels

- (1) If a member (including the chair) of a Hearing Panel becomes incapacitated or is otherwise unable to serve on a Hearing Panel for whatever reason, the remaining member or members of the Hearing Panel may continue to deal with any matter and may make any order or decision that a Hearing Panel may make provided that the Hearing Panel may only continue to deal with any matter with the consent of all parties to the hearing.

Background

¶ 2 Between February 2011 and March 2012, Lakeshore entered into a new line of business involving the provision of direct market access (“DMA”) to certain clients. The Enforcement Department Staff (“Staff”) of IROC conducted an investigation into the conduct of Lakeshore in respect of this new line of business.

¶ 3 The investigation by the Staff revealed that between February 2011 – March 2012, Lakeshore had failed to take adequate steps to quantify, summarize and document its trading supervision, testing and reporting. In addition, Lakeshore offered DMA to certain clients who did not meet the financial eligibility requirements at the time as required by Rule 2-501 of the Rules of the Toronto Stock Exchange. Rule 10.1 of the Universal Market Integrity Rules (“UMIR”) requires a participant to comply with Marketplace Rules. The provision of DMA to ineligible clients is also contrary to Lakeshore's trading supervision obligations under UMIR 7.1 and Policy 7.1.

¶ 4 Lakeshore has admitted that it failed to comply with its trading supervision obligations contrary to Universal Market Integrity Rules (“UMIR”) 7.1, UMIR Policy 7.1, UMIR Rule 10.1 and Rule 2-501 of the Rules of the Toronto Stock Exchange. See Paragraph 7(1) of the Settlement Agreement.

¶ 5 The parties have also agreed that Lakeshore will pay a fine of \$20,000.00 plus costs of \$5,000.00.

Mitigating Circumstances

¶ 6 There is no evidence of market manipulation. Enforcement counsel submitted that this case really amounts to a failure to document the required supervision. Also Lakeshore has shown a willingness to comply once the errors were pointed out. They now have a compliance manual and new compliance procedures. More recent field reviews by the Staff indicate no further problems with Lakeshore’s trading.

Conclusion

¶ 7 Enforcement Counsel referred us to a number of previous cases including Interactive Broker’s Canada Inc., Jitneytrade Inc., Questrade & Eydelman, Standard Securities Capital Corporation, and Geddes (RE). After reviewing these cases Enforcement Counsel submitted that the proposed fine and costs award in this case are within a reasonable range. Counsel for Lakeshore supported this submission. We agree with the submission made by Enforcement Counsel.

¶ 8 In conclusion, we approve the settlement agreement in this matter.

Robert P. Armstrong

David W. Kerr

OFFER OF SETTLEMENT

INTRODUCTION

1. The Enforcement Department Staff (“Staff”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) has conducted an investigation (the “Investigation”) into the conduct of Lakeshore Securities Inc. (the “Respondent”).
2. The Investigation has disclosed matters for which IIROC seeks certain sanctions against the Respondent pursuant to Rule 10.5 of the Universal Market Integrity Rules (“UMIR”).
3. If this Offer of Settlement is accepted by the Respondent, the resulting settlement agreement (the “Settlement Agreement”) which has been negotiated in accordance with Part 3 of UMIR Policy 10.8, is conditional upon approval by a hearing panel appointed pursuant to IIROC Transitional Rule No. 1, Schedule C.1 (the “Hearing Panel”).
4. The Respondent agrees to waive all rights under UMIR to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.

5. The Respondent consents to be subject to the jurisdiction of IIROC and its relevant disciplinary process and rules in relation to this matter.
6. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement.

AGREEMENT AS TO REQUIREMENTS CONTRAVENED

7. The Respondent agrees that:
 - (i) Between February 2011 and March 2012 (the “Relevant Period”), it failed to comply with its trading supervision obligations contrary to Universal Market Integrity Rule (“UMIR”) 7.1, UMIR Policy 7.1, UMIR Rule 10.1 and Rule 2-501 of the Rules of The Toronto Stock Exchange (the “TSX”).

ADMITTED FACTS

8. For the purposes of this Settlement Agreement, Staff and the Respondent agree with and rely upon the admitted facts and conclusions which are set out in the Statement of Allegations attached as Appendix “A” to this Settlement Agreement.

DISPOSITION

9. For the contravention in paragraphs 7(i) above, Staff and the Respondent have agreed upon disposition on the basis of:
 - (i) Payment by the Respondent of a fine in the amount of \$20,000; and
 - (ii) Payment by the Respondent of costs in the amount of \$5,000.

PROCEDURES FOR ACCEPTANCE OF OFFER OF SETTLEMENT AND APPROVAL OF SETTLEMENT AGREEMENT

10. The Respondent shall have until the close of business on September 12, 2014 to sign this Settlement Agreement and serve an executed copy thereof on Staff.
11. This Settlement Agreement shall be presented to the Hearing Panel at a hearing (the “Approved Hearing”) held for the purpose of approving the Settlement Agreement, in accordance with the procedures described in UMIR Policy 10.8 in addition to any other procedures as may be agreed upon between the parties. The Respondent acknowledges that IIROC shall notify the public and media of the Approval Hearing in such manner and by such media as IIROC sees fit.
12. Pursuant to Part 3.4 of UMIR Policy 10.8, the Hearing Panel may accept or reject this Settlement Agreement.
13. In the event the Settlement Agreement is accepted by a Hearing Panel, the matter becomes final, there can be no appeal or review of the matter, the disposition of the matter agreed upon in this Settlement Agreement will be included in the permanent record of IIROC in respect of the Respondent and IIROC will publish a summary of the requirements contravened, the facts, and the disposition agreed upon in the Settlement Agreement.
14. In the event the Hearing Panel rejects the Settlement Agreement, IIROC may proceed with a hearing of the matter before a differently constituted Hearing Panel pursuant to Part 3.7 of UMIR Policy 10.8 and this Settlement Agreement may not be referred to without the consent of both parties.
15. The Respondent agrees that, in the event it fails to comply with any of the terms of the Settlement Agreement, IIROC may enforce this settlement in any manner it deems appropriate.
16. The Respondent agrees that neither it nor anyone on its behalf will make a public statement inconsistent with this Settlement Agreement.

IN WITNESS WHEREOF the parties have signed this Settlement Agreement as of the dates noted below.

DATED at Oakville, Ontario on the 9 day of September, 2014.

"Witness Signature"

"LAKESHORE SECURITIES INC."

"Todd Rohne"

Name of Witness

DATED at Toronto, Ontario on the 3rd day of September, 2014.

Per: "Elsa Renzella"

ELSA RENZELLA

VICE-PRESIDENT, ENFORCEMENT

IIROC

Suite 2000, 121 King Street West

Toronto, Ontario M5H 3T9

This foregoing Settlement Agreement is hereby approved this 15th day of October, 2014, by the following hearing panel constituted to review the terms thereof:

Per: "Robert A. Armstrong"

Panel Chair

Per: "David Kerr"

Panel Member

APPENDIX "A"
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF
CANADA

IN THE MATTER OF:

REGULATORY ORGANIZATION OF CANADA
AND
THE UNIVERSAL MARKET INTEGRITY RULES
AND
LAKESHORE SECURITIES INC.
STATEMENT OF ALLEGATIONS

I. REQUIREMENTS CONTRAVENED

1. Between February 2011 and March 2012 (the "Relevant Period"), Lakeshore Securities Inc. ("Lakeshore") failed to comply with its trading supervision obligations contrary to Universal Market Integrity Rule ("UMIR") 7.1, UMIR Policy 7.1, UMIR Rule 10.1 and Rule 2-501 of the Rules of The Toronto Stock Exchange (the "TSX").
2. Schedule "A" sets out the text of the relevant UMIR and TSX Requirements.

II. RELEVANT FACTS AND CONCLUSIONS

Overview

3. Between February 2011 and March 2012 (the "Relevant Period"), Lakeshore entered a new line of business involving the provision of direct market access ("DMA") to certain clients. The new line of

business increased Lakeshore's order flow significantly, but Lakeshore failed to take adequate steps to quantify, summarize and document its trading supervision testing and reporting.

4. In addition, Lakeshore offered DMA to certain clients who did not meet the financial eligibility requirements at the time as set out in Rule 2-501 of the Rules of The Toronto Stock Exchange. UMIR 10.1 requires a Participant to comply with the Marketplace Rules on which any particular order is entered or executed. The provision of DMA to ineligible clients is also contrary to Lakeshore's trading supervision obligations contrary to UMIR 7.1 and Policy 7.1.
5. UMIR Policy 7.1 makes specific reference to the fact that where an order is entered on a marketplace without the involvement of a trader, the Participant retains responsibility for that order and the supervision policies and procedures should adequately address the additional risk exposure which the Participant may have for orders that are not directly handled by staff of the Participant.
6. Further guidance on meeting the requirements set out in UMIR 7.1 for supervising DMA trading was provided in Market Integrity Notice 2007-010 issued by IIROC Staff on April 20, 2007 under the heading "Guidance – Compliance Requirements for Dealer-Sponsored Access Trading". MIN 2007-010 sets out IIROC's expectations regarding compliance procedures to be adopted by a Participant that provides DMA.

The Respondent

7. Lakeshore is a Type 2 introducing broker with its head office in Oakville, Ontario and sub-branch in Toronto, Ontario. It is a Dealer Member of IIROC. Lakeshore was originally incorporated as Kingston Securities Inc. on January 18, 2000. The name was subsequently changed to Centurion Investment Advisors Inc. in January 2003 and Lakeshore in December 2008.
8. Prior to February, 2011, Lakeshore's business primarily involved the provision of financial advice to retail clients as an asset management firm with an emphasis on "blue-chip" investment recommendations and traditional investment strategies.

Lakeshore Becomes a Participating Organization of the TSX

9. On February 28, 2011, Lakeshore was accepted as a Participating Organization of the TSX and received its own Participating Organization number. In joining the TSX, Lakeshore became obligated to comply with all UMIR Requirements and the Rules of the TSX.
10. IIROC's Trading Conduct Compliance Division ("TCC") is, amongst other things, responsible for the monitoring and review of trading conduct and trading supervision of firms trading on an IIROC-regulated marketplace.
11. On March 3, 2011 TCC Staff sent an e-mail to Lakeshore advising that it had learned of Lakeshore's new membership in the TSX. TCC Staff advised Lakeshore that it was now directly required to comply with UMIR obligations including trade supervision pursuant to UMIR 7.1 and that Lakeshore was also required to test and report on those supervision efforts.
12. Lakeshore commenced active business with two DMA clients in April 2011. The order flow to Lakeshore generated by the DMA business resulted in additional revenue of \$76,923 in 2011.

TCC Field Review

13. In September 2011, TCC Staff commenced its first field examination of Lakeshore's trade supervision and conduct. TCC Staff noted that Lakeshore was unable to supply reports or evidence of testing for spoofing, layering or high closing.
14. TCC Staff conducted a review of Lakeshore's testing procedures for trades with no change in beneficial or economic ownership and performed a sample test for these transactions over a two month period (June and July 2011). TCC Staff noted that Lakeshore received and reviewed alerts generated by Position Watch in this regard, and while most transactions were cancelled, others were not based on its

interpretation of UMIR requirements. In addition, there was no evidence of testing and no results were quantified or summarized.

Inadequate Supervision of Trading Activity

15. Though Position Watch and Fenix Capital were used by Lakeshore to generate alerts for potential artificial pricing activities, they did not effectively use alerts for all potential artificial pricing activities.
16. During the Relevant Period, the supervisory practices and procedures at Lakeshore did not adequately quantify, summarize or document testing it performed to comply with its obligations under UMIR 7.1.

Provision of DMA to Ineligible Clients

17. Lakeshore also provided direct market access to clients that did not meet the financial eligibility criteria at the time. Lakeshore provided DMA to certain clients despite the fact that these clients did not meet financial eligibility criteria pursuant to then TSX Rule 2-501, as follows:

CLIENT	Account Opening date	Date of first Trade	Date of last Trade	Account transfer Out date
Client 1	March 14, 2011	April 12, 2011	February 9, 2012	February 10, 2012
Client 2	September 27, 2011	October 3, 2011	n/a*	n/a*
Client 3	September 26, 2011	October 3, 2011	February 27, 2012	March 1, 2012
Client 4	September 26, 2011	October 4, 2011	February 22, 2012	February 29, 2012
Client 5	September 26, 2011	October 4, 2011	February 17, 2012	February 28, 2012

* Client 2 remains a Lakeshore client, trading as an order execution client through Lakeshore Direct (an order execution service offered by Lakeshore).

18. Lakeshore's screening process for opening a DMA account emphasized a client's proficiency in managing trade risk and trading experience. Potential DMA clients were required to demonstrate that they had been trading for over fifteen years and that their trading strategies had adequate risk management. Lakeshore's screening process was in keeping with the subsequently issued TMX Notice 2014-005 dated February 10, 2014.
19. On Thursday, February 9, 2012, TCC Staff learned that Lakeshore had provided DMA to ineligible clients. TCC Staff required Lakeshore to disable immediately any DMA trading and have a registered individual accept orders until alternate arrangements could be made.
20. On Monday, February 13, 2012, at the close of business, four of the five clients referred to above in paragraph 18 had their DMA client IDs removed by Lakeshore. One of the clients had already transferred their DMA account out of Lakeshore (as of February 10, 2012).

Corrective Measures taken by Lakeshore / Mitigating Circumstances

21. The breaches that form the subject matter of this settlement agreement are historical in nature. Since January 2012, Lakeshore has taken various steps to comply with UMIR requirements including:
 - (i) hiring an external consultant;
 - (ii) redrafting its compliance manual;

- (iii) updating and enhancing its compliance procedures including working with its clients to modify their own systems.
22. No intentionally manipulative or deceptive trading has been identified during the Relevant Period and there has been no market harm.
23. Lakeshore has provided its full co-operation during Staff's investigation of this matter.

September 14, 2014
Investment Industry Regulatory
Organization of Canada
Suite 2000 – 121 King St. West
Toronto, Ontario
M5H 3T9

Schedule "A"

EXCERPTS FROM THE UNIVERSAL MARKET INTEGRITY RULES

7.1 Trading Supervision Obligations

- (1) Each Participant shall adopt written policies and procedures to be followed by directors, officers, partners and employees of the Participant that are adequate, taking into account the business and affairs of the Participant, to ensure compliance with these Rules and each Policy.
- (2) Prior to the entry of an order on a marketplace by a Participant, the Participant shall comply with:
 - (a) applicable regulatory standards with respect to the review, acceptance and approval of orders;
 - (b) the policies and procedures adopted in accordance with subsection (1); and
 - (c) all requirements of these Rules and each Policy.
- (3) Each Participant shall appoint a head of trading who shall be responsible to supervise the trading activities of the Participant in a marketplace.
- (4) The head of trading together with each person who has authority or supervision over or responsibility to the Participant for an employee of the Participant shall fully and properly supervise such employee as necessary to ensure the compliance of the employee with these Rules and each Policy.

POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS

Part 1 – Responsibility for Supervision and Compliance

For the purposes of Rule 7.1, a Participant shall supervise its employees, directors and officers and, if applicable, partners to ensure that trading in securities on a marketplace (an Exchange, QTRS or ATS) is carried out in compliance with the applicable Requirements (which includes provisions of securities legislation, UMIR, the Trading Rules and the Marketplace Rules of any applicable Exchange or QTRS). An effective supervision system requires a strong overall commitment on the part of the Participant, through its board of directors, to develop and implement a clearly defined set of policies and procedures that are reasonably designed to prevent and detect violations of Requirements. The board of directors of a Participant is responsible for the overall stewardship of the firm with a specific responsibility to supervise the management of the firm. On an ongoing basis, the board of directors must ensure that the principal risks for non-compliance with Requirements have been identified and that appropriate supervision and compliance procedures to manage those risks have been implemented.

Management of the Participant is responsible for ensuring that the supervision system adopted by the Participant is effectively carried out. The head of trading and any other person to whom supervisory

responsibility has been delegated must fully and properly supervise all employees under their supervision to ensure their compliance with Requirements. If a supervisor has not followed the supervision procedures adopted by the Participant, the supervisor will have failed to comply with their supervisory obligations under Rule 7.1(4).

When the Market Regulator reviews the supervision system of a Participant (for example, when a violation occurs of Requirements), the Market Regulator will consider whether the supervisory system is reasonably well designed to prevent and detect violations of Requirements and whether the system was followed.

The compliance department is responsible for monitoring and reporting adherence to rules, regulations, requirements, policies and procedures. In doing so, the compliance department must have a compliance monitoring system in place that is reasonably designed to prevent and detect violations. The compliance department must report the results from its monitoring to the Participant's management and, where appropriate, the board of directors, or its equivalent. Management and the board of directors must ensure that the compliance department is adequately funded, staffed and empowered to fulfil these responsibilities.

The obligation to supervise applies whether the order is entered on a marketplace:

- by a trader employed by the Participant,
- by an employee of the Participant through an order routing system,
- directly by a client and routed to a marketplace through the trading system of the Participant, or
- by any other means.

In performing the trading supervision obligations, the Participant will act as a "gatekeeper" to help prevent and detect violations of applicable Requirements.

Where an order is entered on a marketplace without the involvement of a trader (for example by a client with a systems interconnect arrangement in accordance with Policy 2-501 of the Toronto Stock Exchange), the Participant retains responsibility for that order and the supervision policies and procedures should adequately address the additional risk exposure which the Participant may have for orders that are not directly handled by staff of the Participant. For example, it may be appropriate for the Participant to sample for compliance testing a higher percentage of orders that have been entered directly by clients than the percentage of orders sampled in other circumstances.

In addition, the "post order entry" compliance testing should recognize that the limited involvement of staff of the Participant in the entry of orders by a direct access client may restrict the ability of the Participant to detect orders that are not in compliance with specific rules. For example, "post order entry" compliance testing may be focused on whether an order entered by a direct access client:

- has created an artificial price contrary to Rule 2.2;
- is part of a "wash trade" (in circumstances where the client has more than one account with the Participant);
- is an unmarked short sale (if the trading system of the Participant does not automatically code as "short" any sale of a security not then held in the account of the client); and
- has complied with order marking requirements and in particular the requirement to mark an order as from an insider or significant shareholder (unless the trading system of the Participant restricts trading activities in affected securities).

Part 2 – Minimum Element of a Supervision System

For the purposes of Rule 7.1, a supervision system consists of both policies and procedures aimed at preventing violations from occurring and compliance procedures aimed at detecting whether violations have occurred.

The Market Regulator recognizes that there is no one supervision system that will be appropriate for all Participants. Given the differences among firms in terms of their size, the nature of their business, whether they

are engaged in business in more than one location or jurisdiction, the experience and training of its employees and the fact that effective jurisdiction can be achieved in a variety of ways, this Policy does not mandate any particular type or method of supervision of trading activity. Furthermore, compliance with this Policy does not relieve Participants from complying with specific Requirements that may apply in certain circumstances. In particular, Participants are reminded that, in accordance with subsection (2) of Rule 10.1, the entry of orders must comply with the Marketplace Rules on which the order is entered and the Marketplace Rules on which the order is executed. (For example, for Participants that are Participating Organizations of the TSE, reference should be made to the Policy on “Connection of Eligible Clients of Participating Organizations”).

Participants must develop and implement supervision and compliance procedures that exceed the elements identified in this Policy where the circumstances warrant. For Part 7 – Trading in a Marketplace UMIR 7.1-3 May 26, 2006 example, previous disciplinary proceedings, warning and caution letters from the Market Regulator or the identification of problems with the supervision system or procedures by the Participant or the Market Regulator may warrant the implementation of more detailed or more frequent supervision and compliance procedures.

Regardless of the circumstances of the Participant, however, every Participant must:

- 1. Identify the relevant Requirements, securities laws and other regulatory requirements that apply to the lines of business in which the Participant is engaged (the “Trading Requirements”).*
- 2. Document the supervision system by preparing a written policies and procedures manual. The manual must be accessible to all relevant employees. The manual must be kept current and Participants are advised to maintain a historical copy.*
- 3. Ensure that employees responsible for trading in securities are appropriately registered and trained and that they are knowledgeable about the Trading Requirements that apply to their responsibilities. Persons with supervisory responsibility must ensure that employees under their supervision are appropriately registered and trained. The Participant should provide a continuing training and education program to ensure that its employees remain informed of and knowledgeable about changes to the rules and regulations that apply to their responsibilities.*
- 4. Designate individuals responsible for supervision and compliance. The compliance function must be conducted by persons other than those who supervised the trading activity.*
- 5. Develop and implement supervision and compliance procedures that are appropriate for the Participant’s size, lines of business in which it is engaged and whether the Participant carries on business in more than one location or jurisdiction.*
- 6. Identify the steps the Participant will take when a violation or possible violation of a Requirement or any regulatory requirement has been identified. These steps shall include the procedure for the reporting of the violation or possible violation to the Market Regulator if required by Rule 10.16. If there has been a violation or possible violation of a Requirement identify the steps that would be taken by the Participant to determine if:*
 - additional supervision should be instituted for the employee, the account or the business line that may have been involved with the violation or possible violation of a Requirement; and*
 - the written policies and procedures that have been adopted by the Participant should be amended to reduce the possibility of a future violation of the Requirement.*
- 7. Review the supervision system at least once per year to ensure it continues to be reasonably designed to prevent and detect violations of Requirements. More frequent reviews may be required if past reviews have detected problems with supervision and compliance. Results of these reviews must be maintained for at least five years.*
- 8. Maintain the results of all compliance reviews for at least five years.*

9. *Report to the board of directors of the Participant or, if applicable, the partners, a summary of the compliance reviews and the results of the supervision system review. These reports must be made at least annually. If the Market Regulator or the Participant has identified significant issues concerning the supervision system or compliance procedures, the board of directors or, if applicable, the partners, must be advised immediately.*

Part 3 - Minimum Compliance Procedures for Trading on a Marketplace

A Participant must develop and implement compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements.

In developing compliance procedures, Participants must identify any exception reports, trading data and/or other documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

[.....]

10.1 Compliance Requirement

(1) Each Participant and Access Person shall comply with applicable Requirements.

(2) For the purposes of subsection (1), a Participant or Access Person shall, with respect to a particular order, comply with the Marketplace Rules of:

- (a) the marketplace on which the particular order is entered; and
- (b) the marketplace on which the particular order is executed.

EXCERPTS FROM THE RULES OF THE TORONTO STOCK EXCHANGE

Rule 2-501 Designation of Eligible Clients

The Exchange may from time to time prescribe classes of entities as eligible to transmit orders to the Exchange through a Participating Organization.

Policy 2-501 - Designation of Eligible Clients

(1) Prescribed Classes of Entities

For the purposes of Rule 2-501, the following classes of entities are prescribed as eligible to transmit orders to the Exchange through a Participating Organization:

- (a) a client that falls within the definition of “acceptable counterparties” or “acceptable institutions” as defined in the General Notes and Definitions section of the Joint Regulatory Financial Questionnaire and Report;
- (b) a client that is registered as an investment counsellor or portfolio manager under the Securities Act of one or more of the Provinces of Canada;
- (c) a client that is a foreign broker or dealer (or the equivalent registration) registered with the appropriate regulatory body in the broker's or dealer's home jurisdiction and that is an affiliate of a Participating Organization acting for its own account, the accounts of other eligible clients or the accounts of its clients;
- (d) a client that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the customer and falls into one of the following categories:

- (i) an insurance company as defined in section 2(13) of the U.S. Securities Act of 1933,
 - (ii) an investment company registered under the U.S. Securities Act of 1933 or any business development company as defined in section 2(a)(48) of that Act,
 - (iii) a small business investment company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the U.S. Small Business Investment Act of 1958,
 - (iv) a plan established and maintained by a U.S. state, its political subdivisions, or any agency or instrumentality of a U.S. state or its political subdivisions, for the benefit of its employees,
 - (v) an employee benefit plan within the meaning of Title I of the U.S. Employee Retirement Income Securities Act of 1974,
 - (vi) a trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in (iv) or (v) above, except trust funds that include as participants individual retirement accounts or U.S. H.R. 10 plans,
 - (vii) a business development company as defined in section 202(a)(22) of the U.S. Investment Advisers Act of 1940,
 - (viii) an organization described in section 501(c)(3) of the U.S. Internal Revenue Code, corporation (other than a bank as defined in section 3(a)(2) of the U.S. Securities Act of 1933 or a savings and loan association or other institution referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933 or a foreign bank or savings and loan association or equivalent institution), partnership or Massachusetts or similar business trust, and
 - (ix) an investment adviser registered under the U.S. Investment Advisers Act;
- (e) a client that is a dealer registered pursuant to section 15 of the U.S. Securities Exchange Act of 1934, acting for its own account or the accounts of other eligible clients, that in the aggregate owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer, provided that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer;
- (f) a client that is an investment company registered under the U.S. Investment Company Act, acting for its own account or for the accounts of other Qualified Institutions, that is part of a family of investment companies which own in the aggregate at least \$100 million in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies and, for these purposes, “family of investment companies” means any two or more investment companies registered under the U.S. Investment Company Act, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment adviser (or, in the case of unit investment trusts, the same depositor), provided, for these purposes:
- (i) each series of a series company (as defined in Rule 18f-2 under the U.S. Investment Company Act) shall be deemed to be a separate investment company, and
 - (ii) investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority-owned subsidiaries of the same parent, or if one investment company’s adviser (or depositor) is a majority - owned subsidiary of the other investment company’s adviser (or depositor);
- (g) a client, all of the equity owners of which are Qualified Institutions, acting for its own account or the accounts of other Qualified Institutions;

- (h) a client that is a bank as defined in section 3(a)(2) of the U.S. Securities Act of 1933, or any savings and loan institution or other institution as referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933, acting for its own account or the accounts of other Qualified Institutions, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25 million; and
 - (i) a client that enters an order through an Order-Execution Account.

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