



Appendix D – Text of Dealer Member Rules with blacklined Amendments

BLACKLINED RULE 1300 SUPERVISION OF ACCOUNTS

1300.1.

Identity and Creditworthiness

- (a) Each Dealer Member shall use due diligence to learn and remain informed of the essential facts relative to every customer and to every order or account accepted.
- (b) When opening an initial account for a corporation or similar entity, the Dealer Member shall:
 - (i) ascertain the identity of any individual who is the beneficial owner of, or exercises direct or indirect control or direction over, more than 10% of the corporation or similar entity, including the name, address, citizenship, occupation and employer of each such beneficial owner, and whether any such beneficial owner is an insider or controlling shareholder of a publicly traded corporation or similar entity; and
 - (ii) as soon as is practicable after opening the account, and in any case no later than six months after the opening of the account, verify the identity of each individual identified in (i) using such methods as enable the Dealer Member to form a reasonable belief that it knows the true identity of each individual and that are in compliance with any applicable legislation and regulations of the Government of Canada or any province.
- (c) Subsection (b) does not apply to:
 - (i) a corporation or similar entity that is or is an affiliate of a bank, trust or loan company, credit union, caisse populaire, insurance company, mutual fund, mutual fund management company, pension fund, securities dealer or broker, investment manager or similar financial institution subject to a satisfactory regulatory regime in the country in which it is located
 - (ii) a corporation or similar entity whose securities are publicly traded or an affiliate thereof.
- (d) The Corporation may, at its discretion, direct Dealer Members that the exemption in subsection (c) does not apply to some or all types of financial institutions located in a particular country.
- (e) When opening an initial account for a trust, a Dealer Member shall:
 - (i) ascertain the identity of the settlor of the trust and, as far as is reasonable, of any known beneficiaries of more than 10% of the trust, including the name, address, citizenship, occupation and employer of each such settlor and beneficiary and whether any is an insider or controlling shareholder of a publicly traded corporation or similar entity.
 - (ii) as soon as is practicable after opening the account, and in any case no later than six months after the opening of the account, verify the identity of each individual identified in (i) using such methods as enable the Dealer Member to form a reasonable belief that



it knows the true identity of each individual and that are in compliance with any applicable legislation and regulations of the Government of Canada or any province.

- (f) Subsection (e) does not apply to a testamentary trust or a trust whose units are publicly traded.
- (g) If a Dealer Member, on inquiry, is unable to obtain the information required under subsections (b)(i) and (e)(i), the Dealer Member shall not open the account.
- (h) If a Dealer Member is unable to verify the identities of individuals as required under subsections (b)(ii) and (e)(ii) within six months of opening the account, the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities only until such time as the verification is completed.
- (i) No Dealer Member shall open or maintain an account for a shell bank.
- (j) For the purposes of section (i) a shell bank is a bank that does not have a physical presence in any country.
- (k) Subsection (i) does not apply to a bank which is an affiliate of a bank, loan or trust company, credit union, other depository institution that maintains a physical presence in Canada or a foreign country in which the affiliated bank, loan or trust company, credit union, other depository institution is subject to supervision by a banking or similar regulatory authority.
- (l) Any Dealer Member having an account for a corporation, similar entity or trust other than those exempt under subsections (c) and (f) and which does not have the information regarding the account required in subsections (b)(i) and (e)(i) at the date of implementation of those subsections shall obtain the information within one year from date of implementation of subsections (b) and (e).
- (m) If the Dealer Member does not or cannot obtain the information required under subsection (l) the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities until such time as the required information has been obtained.
- (n) Dealer Members must maintain records of all information obtained and verification procedures conducted under this Rule 1300.1 in a form accessible to the Corporation for a period of five years after the closing of the account to which they relate.

Business Conduct

- (o) Each Dealer Member shall use due diligence to ensure that the acceptance of any order for any account is within the bounds of good business practice.

Suitability determination required when accepting order

- (p) Subject to Rules 1300.1(t), [1300.1\(u\)](#) and 1300.1(~~uv~~), each Dealer Member shall use due diligence to ensure that the acceptance of any order from a client is suitable for such client based on factors including the client's current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or accounts' current investment portfolio composition and risk level. If the order received from a client is not suitable, the client must, at a minimum, be advised against proceeding with the order.



Suitability determination required when recommendation provided

- (q) Each Dealer Member, when recommending to a client the purchase, sale, exchange or holding of any security, shall use due diligence to ensure that the recommendation is suitable for such client based on factors including the client's current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or accounts' current investment portfolio composition and risk level.

Suitability determination required for account positions held when certain events occur

- (r) Each Dealer Member shall, subject to Rules 1300.1(t), [1300.1\(u\)](#) and 1300.1(~~u~~v), use due diligence to ensure that the positions held in a client's account or accounts are suitable for such client based on factors including the client's current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or account(s)' current investment portfolio composition and risk level whenever one or more of the following trigger events occurs:
- (i) Securities are received into the client's account by way of deposit or transfer; or
 - (ii) There is a change in the registered representative or portfolio manager responsible for the account; or
 - (iii) There has been a material change to the client's life circumstances or objectives that has resulted in revisions to the client's "know your client" information as maintained by the Dealer Member.

Suitability of investments in client accounts

- (s) To comply with the requirements under Rules 1300.1(p), 1300.1(q) and 1300.1(r), the Dealer Member must use due diligence to ensure that:
- (i) The suitability of all positions in the client's account is reviewed whenever a suitability determination is required; and
 - (ii) The client receives appropriate advice in response to the suitability review that has been conducted.

Suitability determination not required

Exemptions from the suitability assessment requirements

- (t) Each Dealer Member that has applied for and received approval from the Corporation pursuant to Rule 1300.1(~~v~~w), is not required to comply with Rules 1300.1(p), 1300.1(r) and 1300.1(s), when accepting orders from a client where no recommendation is provided, to make a determination that the order is suitable for such client.
- (u) Each Dealer Member that executes a trade on the instructions of another Dealer Member, portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.3 of Rule 2700 is not required to comply with Rule 1300.1(p).



- (v) A Dealer Member is not required to comply with rules 1300.1(p), 1300.1(r) and 1300.1(s), when accepting or transmitting orders for a client who has been provided with direct electronic access within the meaning of National Instrument 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*, if the Dealer Member:
- (i) Determines that the direct electronic access service offering is suitable for the client;
 - (ii) Does not provide recommendations to any Retail Customers who have been provided with direct electronic access; and
 - (iii) Complies with the Universal Market Integrity Rule requirements applicable to the direct electronic access service offering and the requirements of NI 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*.

Corporation approval

- (vw) The Corporation, in its discretion, shall only grant such approval where the Corporation is satisfied that the Dealer Member will comply with the policies and procedures outlined in Rule 3200. The application for approval shall be accompanied by a copy of the policies and procedures of the Dealer Member. Following such approval, any material changes in the policies and procedures of the Dealer Member shall promptly be submitted to the Corporation.

BLACKLINED RULE 3200

MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER RULE 1300.1(T) ~~FOR SUITABILITY RELIEF FOR TRADES NOT RECOMMENDED BY THE MEMBER~~ TO OFFER AN ORDER-EXECUTION ONLY SERVICE

The following Rule sets forth the documentary, procedural and systems requirements for Dealer Members to receive approval to accept orders from a customer without a suitability determination where no recommendation was provided by the Dealer Member.

In this Rule, “order-execution only service” means the acceptance and execution of orders from customers for trades that the Dealer Member has not recommended and for which the Dealer Member takes no responsibility as to the appropriateness or suitability of ~~the trades to the customers’ financial situation, investment knowledge, investment objectives and risk tolerance.~~ orders accepted or account positions held.

In this Rule “automated order system” has the same meaning as defined in National Instrument 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*.

A. Minimum requirements for Dealer Members offering solely an order-execution only service, either as the Dealer Member’s only business or through a separate business unit of the Dealer Member

1. Business Structure and Compensation

- (a) The Dealer Member must operate either as a legal entity or a separate business unit which provides order-execution only services.



- (b) The legal entity or separate business unit of the Dealer Member offering an order execution only service must not allow its order execution only service clients to:
 - (i) use their own automated order system to generate orders to be sent to the Dealer Member or send order to the Dealer Member on a pre-determined basis; or
 - (ii) manually send orders or generate orders to the Dealer Member that exceed the threshold on the number of orders as set by the Corporation from time to time.
- ~~b~~(c) If operated as a separate business unit of the Dealer Member, the order-execution only service must have separate letterhead, accounts, registered representatives and investment representatives and account documentation.
- ~~e~~(d) The registered representatives and investment representatives of the Dealer Member or separate business unit of the Dealer Member shall not be compensated on the basis of transactional revenues.

2. Written Policies and Procedures

- (a) The Dealer Member or separate business unit of the Dealer Member must have written policies and procedures covering all of the matters outlined in this Rule.
- (b) The Dealer Member or separate business unit of the Dealer Member must have a program for communicating those policies and procedures to all its registered representatives and investment representatives and ensuring that the policies and procedures are understood and implemented.

3. Account Opening

- (a) At the time an account is opened, the Dealer Member or separate business unit of the Dealer Member must make a written disclosure to the customer advising that the Dealer Member or separate business unit of the Dealer Member will not provide any recommendations to the customer and will not be responsible for making a suitability determination of trades when accepting orders from the customer. Such disclosure shall clearly explain to the customer that the customer alone is responsible for his or her own investment decisions and that the Dealer Member will not consider the customer's financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer.
- (b) At the time an account is opened, the Dealer Member or separate business unit of the Dealer Member must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in Paragraph 3(a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the Dealer Member must obtain an acknowledgement from all beneficial owners.
- (c) Prior to operating any existing accounts under the approval, the Dealer Member or separate business unit of the Dealer Member must provide the disclosure



described in Paragraph 3(a) to the customer and obtain the acknowledgement described in Paragraph 3(b).

- (d) The acknowledgements obtained under Paragraphs 3(b) and (c) must take the form of a positive act by the customer(s), a record of which must be maintained by the Dealer Member in an accessible form. Possible forms of the acknowledgement are:
 - (i) The customer's signature or initials on a new customer application form or similar document where the signature or initial specifically relates to the required disclosure and acknowledgement;
 - (ii) The clicking of an appropriately labeled button on an electronic account application form, placed directly under the disclosure and acknowledgement text;
 - (iii) The tape recording of a verbal acknowledgement made by telephone.

4. Supervision

- (a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate business unit of the Dealer Member or with the Dealer Member itself.
- (b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 other than those related solely to suitability.
- (c) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as required in Rule 2500.
- (d) The Dealer Member or separate business unit of the Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this Rule.

5. Systems and Books and Records

- (a) The order-entry systems and records of the Dealer Member or separate business unit of the Dealer Member must be capable of labeling all account documentation relating to customers, including monthly statements and confirmations, as "order-execution only accounts" or some variant thereof.
- (b) The monthly statements of a separate business unit of a Dealer Member shall not be consolidated with the account statements of any other business unit of the Dealer Member or of the Dealer Member itself.



B. Minimum requirements for Dealer Members offering both an advisory and an order-execution only service

1. Terminology

All references to the basis of trades in procedures, documents and reports under this Rule must use the terms “recommended” or “non-recommended”. In particular, designating trades as solicited or unsolicited will not be accepted as complying with the requirements of this Rule.

2. Business Structure

The Dealer Member offering both an advisory and an order execution only service must not allow its order execution only service clients to:

(a) Use their own automated order system to generate orders to be sent to the Dealer Member or send orders to the Dealer Member on a pre-determined basis;
or

(b) Manually send orders or generate orders to the Dealer Member that exceed the threshold on the number of orders as set by the Corporation from time to time.

3. Written Policies and Procedures

- (a) The Dealer Member must have written policies and procedures covering all of the matters outlined in this Rule.
- (b) The Dealer Member must have a program for communicating those policies and procedures to all its registered representatives and ensuring that the policies and procedures are understood and implemented.

3.4. Account Opening

- (a) At the time an account is opened, the Dealer Member must make a written disclosure to the customer advising that the Dealer Member will not be responsible for making a suitability determination when accepting an order from the customer which was not recommended by the Dealer Member or a representative of the Dealer Member. Such disclosure shall clearly explain to the customer that the customer alone is responsible for his or her own investment decisions and that the Dealer Member will not consider the customer’s financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer. Such disclosure also shall include a brief description of what does or does not constitute a recommendation¹ and instructions on how the customer can report trades which have not been accurately designated as recommended or non-recommended.

¹ The language of the disclosure shall be the following: in general terms, a dealer is providing a recommendation to you, the client, when the dealer provides you with investment information or advice specifically and individually tailored to your financial situation, investment knowledge, investment objectives, past investments or risk tolerance. However, whether a particular transaction is in fact recommended depends on an analysis of all the relevant facts and circumstances.



- (b) At the time an account is opened, the Dealer Member must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in Paragraph 3(a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the Dealer Member must obtain an acknowledgement from all beneficial owners.
- (c) Prior to operating any existing accounts under the approval, the Dealer Member must provide the disclosure described in Paragraph 3(a) to the customer and obtain the acknowledgement described in Paragraph 3(b).
- (d) The acknowledgements obtained under Paragraphs 3(b) and (c) must take the form of a positive act by the customer(s), a record of which must be maintained by the Dealer Member in an accessible form. Possible forms of the acknowledgement are:
 - ii) The customer's signature or initials on a new customer application form or similar document where the signature or initial specifically relates to the required disclosure and acknowledgement;
 - iii) The clicking of an appropriately labeled button on an electronic account application form, placed directly under the disclosure and acknowledgement text;
 - iv) The tape recording of a verbal acknowledgement made by telephone.

4.5. Supervision

- (a) The Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that orders are marked accurately as recommended or non-recommended.
- (b) The Dealer Member must have written procedures for the selection of accounts to be subject to a monthly review at least equal to those currently required by Rule 2500. The selection must not have regard to whether the trades in the account are marked as recommended or non-recommended. The account review must include a determination whether the overall composition of the customer's portfolio no longer conforms to the documented objectives and risk tolerance of the customer as a result of non-recommended trades and, when it does not, the procedures must specify the steps to be taken for dealing with the disparity.
- (c) The Dealer Member must maintain an audit trail of supervisory reviews as required in Rule 2500.
- (d) The Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this Rule.



5.6. Systems and Books and Records

- (a) The Dealer Member's order-entry systems and records must be capable of recording whether each order is being done on a recommended or non-recommended basis. If the Dealer Member permits customers to enter orders on-line for direct transmission to a trading system, the order entry system must require the customer to indicate whether the trade was recommended or non-recommended. If there is default marking, it must be "recommended."
- (b) The Dealer Member must disclose on the confirmation for each trade by an account whether the transaction was recommended or non-recommended.
- (c) The Dealer Member must disclose on the monthly statement whether each trade was executed on a recommended or non-recommended basis, but is not required to disclose on monthly statements which securities positions resulted from which type of trade.
- (d) The Dealer Member must maintain records of complaints or requests from customers to change the designation of a trade as recommended or non-recommended.
- (e) The Dealer Member must be able to generate reports enabling supervisors to supervise the accuracy of recommended/non-recommended disclosure on orders. Possible methods of meeting this requirement are included as Appendix A to this Rule.
- (f) The Dealer Member's systems must be able to select accounts or generate exception reports to show accounts requiring review as specified in its policies and procedures and Rule 2500 without regard to whether the trades were marked as recommended or non-recommended.