APPENDIX 2

IIROC RULES

(CLEAN)

SERIES 1000 – INTERPRETATION AND PRINCIPLES RULES

IIROC Rule

RULE 1100

INTERPRETATION

1101. Introduction

(1) Rule 1100 sets out general rules of interpretation that apply to the *IIROC requirements*, and certain specific interpretative provisions.

1102. General interpretation

(1) If the context requires, words in the singular may include the plural and words in the plural may include the singular.

(2) All times referred to in the *IIROC requirements* are Eastern Standard Time, or Eastern Daylight Savings Time when in effect, unless stated otherwise.

(3) References to:

(i) a *Dealer Member* include the *Dealer Member's Approved Persons* and *employees*, if the context is appropriate,

(ii) a *Dealer Member's* board of directors include a *Dealer Member's* equivalent governance body for a *Dealer Member* that is not a corporation,

(iii) a corporation, as a type of entity to which the *IIROC requirements* apply, includes unincorporated entities if the context is appropriate, and

(iv) provinces include all provinces and territories of Canada.

(4) In the event of any dispute as to the intent or meaning of any provisions within the *IIROC requirements*, the interpretation of the *Board* is final, subject to any appeal procedures that may be available.

1103. Delegation by a Dealer Member

(1) If an *IIROC requirement* requires an *individual* at a *Dealer Member* to perform a function, that *individual* may delegate the tasks or activities involved in performing the function unless the *IIROC requirements* specifically prohibit such delegation.

(2) An *individual* who delegates tasks or activities cannot delegate the responsibility for the function.

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1104. Electronic signatures

(1) Subject to *applicable laws*, a *Dealer Member* may use an electronic or digital signature where a signature is required by *IIROC requirements* for an agreement, contract or transaction between a *Dealer Member* and its clients, *Approved Persons*, *IIROC*, other *Dealer Members* or any other *person* unless specifically prohibited.

1105. Transitional provision

(1) Any *IIROC* Rule in effect prior to the coming into force of these *IIROC* Rules shall remain in full force and effect until such prior Rule has been repealed.

(2) Any exemption in effect prior to the coming into effect of these *IIROC* Rules shall remain in effect subsequent to the coming into effect of these *IIROC* Rules:

(i) subject to any condition included in the exemption, and

(ii) provided that the applicable prior *IIROC* Rule on which the exemption is based, continues in these *IIROC* Rules.

1106. – 1199. Reserved.

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RULE 1200

DEFINITIONS

1201. Definitions

(1) Some terms used throughout the *IIROC requirements* are defined in subsection 1201(2). Additional terms are set out in *IIROC* General By-Law No. 1 and in Form 1. Terms that are used only in a single Rule are defined in that Rule.

Any term not defined in subsection 1201(2), in *IIROC* General By-Law No. 1, in Form 1 or in a specific Rule, which is defined in *securities laws*, has the same meaning as provided for in the *securities laws*.

When a prescribed or adopted policy defines a term that *IIROC requirements* also defines, the definition contained in the policy prevails to the extent of any inconsistency, when interpreting that policy.

(2) The following terms have the meanings set out when used in the *IIROC requirements:*

"acceptable clearing corporation"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable counterparty"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable exchange"	The same meaning as set out in Form 1, General Notes and Definitions
"acceptable institutions"	The same meaning as set out in Form 1, General Notes and Definitions.
"acceptable foreign marketplace"	Any entity operating as: (i) an exchange, or a quotation and trade reporting system, or an alternative trading system for securities or *derivatives* transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation, or (ii) a quotation and trade reporting system, or an alternative trading system for securities or *derivatives* transactions that is subject to the rules of a self-regulatory organization, which is subject to legislation and oversight by a central or regional government authority in the country of operation.

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	The legislation or oversight regime must provide for or recognize the exchange's, or the quotation and trade reporting system's, or the alternative trading system's powers of compliance and enforcement over its members or participants.
"acceptable securities locations"	The same meaning as set out in Form 1, General Notes and Definitions.
"actively engaged in the business of the Dealer Member"	Participating in the *Dealer Member's* regular business activities, operations or promotion of a *Dealer Member's* services. It does not include participating in board or board corporate governance committee meetings or occasional referrals to the *Dealer Member* that were not solicited on the *Dealer Member's* behalf.
"advertisement"	Any commercials, commentaries and any published materials promoting a *Dealer Member's* business, including materials disseminated or made available electronically.
"advisory account"	An account which is subject to a suitability obligation where: (i) the client is responsible for all investment decisions but is able to rely on advice given by a *Registered Representative*, and (ii) the *Dealer Member* and the *Registered Representative* are responsible for all advice given.
"advisory capacity"	Providing advice to an issuer in return for *remuneration* other than trading advice or related services.
"affiliate"	Where used to indicate a relationship between two corporations, means: (i) one corporation is a *subsidiary* of the other corporation, (ii) both corporations are *subsidiaries* of the same corporation, or (iii) both corporations are *controlled* by the same *person*.
"agent"	An *individual* who is subject to the principal and agent relationship requirements set out in Rule 2300.
"applicable District Council"	The *District Council* for the *District* in which: (i) an applicant for *Membership* or a *Dealer Member* has its head office and, in the case of a *holding company* of an incorporated *Dealer Member*, where the incorporated *Dealer Member* has its head office, (ii) a *business location* is located, (iii) an *individual* applicant for approval or *Approved Person* resides, or (iv) the activities that are the subject of an enforcement

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	proceeding under Rule 8200 primarily occurred, provided that, if the activities that are the subject of the proceeding primarily occurred in more than one *District* or outside of any *District*, then a *hearing panel* assigned to the proceeding shall exercise its discretion to determine the *applicable District Council*, taking into account: (a) the *Districts* in which any clients or other witnesses expected to testify in the proceeding reside, (b) the *District* in which the head office of a *Dealer Member* that is the sole *respondent* in the proceeding, if applicable, is located, and (c) any other factors that the *hearing panel* considers relevant.
"applicable exchange"	The same meaning as set out in Form 1, General Notes and Definitions.
"applicable laws"	All laws, statutes, ordinances, regulations, rules, orders, judgments, decrees or other regulatory directions, applicable to a *Regulated Person* or its employees, partners, directors or officers, in the conduct of their business.
"approved investor"	An *industry investor* (defined in clause 2102(1)) or any other *person* who requires the approval of *IIROC* to invest in a *Dealer Member*.
"Approved Person"	An *individual* approved by IIROC under the *IIROC requirements* to carry out a function for a *Dealer Member*, namely, the following *individuals*: (i) *Associate Portfolio Manager,* (ii) *Chief Compliance Officer,* (iii) *Chief Financial Officer,* (iv) *Director,* (v) *Executive,* (vi) *Investment Representative,* (vii) *Portfolio Manager,* (viii)*Registered Representative,* (ix) *Supervisor,* (x) *Trader,* or (xi) *Ultimate Designated Person.*
"associate"	The same meaning as set out in General By-law No. 1, section 1.1.
"Associate Portfolio Manager"	An *individual* designated by the *Dealer Member* and approved by *IIROC* to provide discretionary portfolio management for *managed accounts* under the supervision of a *Portfolio*

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	Manager.
"beneficial owner"	A *person* who has *beneficial ownership* of securities.
"beneficial ownership"	Beneficial ownership of securities includes ownership: (i) of securities by: (a) a corporation, or (b) *affiliates* of a corporation, that is controlled by a *person*, or (ii) by a corporation of securities beneficially owned by the *affiliates* of the corporation.
"Board"	The same meaning as set out in General By-law No. 1, section 1.1.
"business day"	A day other than Saturday, Sunday and any statutory holiday in the relevant *District*.
"business location"	A location where an activity that requires registration or *IIROC* approval is carried out by or on behalf of a *Dealer Member*, and includes a residence if regular and ongoing activity that requires registration or approval is carried out from the residence or if *records* relating to an activity that requires registration or approval are kept at the residence.
"carrying broker"	A *Dealer Member* that carries client accounts for another *Dealer Member*, which includes the clearing and settlement of trades, the maintenance of *records* of client transactions and accounts, and the custody of client cash and securities, in accordance with the requirements set out in Rule2400.
"CDS"	CDS Clearing and Depository Services Inc.
"CIPF" or "Canadian Investor Protection Fund"	The same meaning as set out for the term CIPF in General By-law No. 1, section 1.1.
"CIPF Disclosure Policy"	The policy setting out the *Canadian Investor Protection Fund's* membership disclosure requirements, as made available on *CIPF*'s website.
"chartered bank"	A bank incorporated under the Bank Act (Canada).
"Chief Compliance Officer"	An *individual* approved by *IIROC* to act as the chief compliance officer of a *Dealer Member*.
"Chief Financial Officer"	An *individual* approved by *IIROC* to act as the chief financial officer of a *Dealer Member*.
"clearing day"	Any day *CDS* or another *acceptable clearing corporation* is open for business.
"control"	Where used to indicate control of a corporation, means a

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	person who has *beneficial ownership* of voting securities in the corporation that carry more than 50% of the votes for election of directors of the corporation and such votes allow the *person* to elect a majority of the directors; but if a *hearing panel* or *District Council* orders that a *person* does or does not control the corporation under *IIROC requirements*, that order defines their relationship under *IIROC requirements*.
"correspondence"	Any *advertisements* or business related communication, including written or electronic communications, prepared for distribution to a single current or prospective client, but not for distribution to multiple clients or the general public.
"Dealer Member"	The same meaning as set out in General By-law No. 1, section 1.1.
"Dealer Member related activities"	Acting as a *Dealer Member*, or carrying on business that is necessary or incidental to being a *Dealer Member*. The *Board* may include or exclude any activities from this definition.
"Dealer Member's auditor"	An auditor on the *IIROC* approved list of accounting firms chosen by the *Dealer Member* to be its auditor.
"debt security"	Any security that provides the holder with a legal right, in specified circumstances, to demand payment of the amount owing and includes a debtor-creditor relationship. The term includes securities with short-term maturities or mandatory tender periods such as commercial paper and floating rate notes as well as traditional notes and bonds.
"derivative"	A financial instrument whose value is derived from, and reflects changes in, the price of the underlying product. It is designed to facilitate the transfer and isolation of risk and may be used for both risk transference and investment purposes.
"designated Supervisor"	A *Supervisor* that the *Dealer Member* makes responsible for a supervisory role defined in the *IIROC requirements*, including a *Supervisor* responsible for: (i) the supervision of *futures contracts* and *futures contract options* trading accounts under Part D of Rule 3200, (ii) the supervision of *options* trading accounts under Part D of Rule 3200, (iii) the supervision of *discretionary accounts* under Part E of Rule 3200, (iv) the opening of new accounts and the supervision of account activity under Part B of Rule 3900, (v) the supervision of *managed accounts* under Part G of Rule 3900, (vi) the pre-approval of *advertising*, *sales literature* and *correspondence* under Part A of Rule 3600, and

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	(vii) the supervision of *research reports* under Part B of Rule 3600.
"Director"	A member of a *Dealer Member's* board of directors or an *individual* performing similar functions at a *Dealer Member* that is not a corporation.
"discretionary account"	An account which is subject to the suitability obligation and over which the client has given discretionary authority where: (i) the *Dealer Member* has not solicited the discretionary authority, (ii) the discretionary authority is accepted to accommodate a client who is frequently or temporarily unavailable to authorize trades, (iii) the discretionary authority has not been renewed, and (iv) the term of the discretionary authority does not exceed 12 months.
"District"	The same meaning as set out in General By-law No. 1, section 1.1.
"District Council"	The same meaning as set out in General By-law No. 1, section 1.1.
"early warning excess"	This is calculated and has the same meaning as set out in Statement C of Form 1.
"early warning reserve"	This is calculated and has the same meaning as set out in Statement C of Form 1.
"equity security"	An interest, investment or security in a corporation the holder of which has no legal right to demand payment until the corporation or its board of directors has passed a resolution declaring a dividend or other distribution or a winding up of the corporation.
"employee"	An employee or *agent* of a *Dealer Member.*
"Enforcement Staff"	*IIROC* staff who are authorized to conduct enforcement activities on behalf of *IIROC*, including conducting *investigations* and initiating and conducting disciplinary proceedings.
"Executive"	A *Dealer Member's* partner, *Director* or *officer* who is involved in the *Dealer Member's* senior management, including anyone fulfilling the role of chair or vice-chair of the board of directors, chief executive officer, president, chief administrative officer, chief operating officer or a person acting in a similar capacity who is head of operations, *Chief Financial Officer*, *Chief Compliance Officer*, *Ultimate Designated Person*, member of an executive management committee or any other position that the *Dealer Member* designates as an Executive position.

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	"free credit balance"	Free credit balance means: (i) for cash and margin accounts, the credit balance less an amount equal to the aggregate of: (a) the *market value* of short positions, and (b) margin required on those short positions, and (ii) for futures accounts, the credit balance less an amount equal to the aggregate of: (a) margin required to carry open *futures contracts* or *futures contract option* positions, less (b) any equity in those contracts, plus (c) any deficits in those contracts. However, the aggregate amount must not exceed the dollar amount of the credit balance.
	"futures contract"	A contract to make or take delivery of the underlying interest during a designated future month on terms agreed to when the contract is entered on a commodity futures exchange.
	"futures contract option"	A right to acquire a long or short position in connection with a *futures contract* on terms agreed to at the time the option is granted and any option that has a *futures contract* as its underlying interest.
	"guarantee"	An agreement to be responsible for the liabilities of a *person* or to provide security for a *person*; and includes an agreement to: (i) purchase an investment, property or services, (ii) to supply funds, property or services, or (iii) to make an investment, if the agreement's main purpose is to allow a *person* to perform its obligations under a security or investment, or to assure an investor in a security that the *person* will perform its obligations.
	"hearing"	A hearing in connection with a proceeding, proposed proceeding or other matter under *IIROC requirements*, other than a *prehearing conference* (defined in section 8402).
	"hearing committee"	A hearing committee of a *District* appointed under Rule 8300.
	"hearing panel"	A panel selected by the *National Hearing Coordinator* to conduct a *hearing* or *prehearing conference* (defined in section 8402).
	"holding company"	Of a corporation means either: (i) another corporation that owns : (a) more than 50 per cent of each class or series of the voting securities, and (b) more than 50 per cent of each class or series of the

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	participating securities, either directly in the corporation or in the holding company of that corporation, but does not include: (ii) an *industry investor* (defined in clause 2102(1)(i)) that owns the corporation's securities in the capacity of an *industry investor*, or (iii) a corporation that the *District Council* has ordered is not a holding company of that corporation.
"IIROC"	The same meaning as the term Corporation as set out in General By-law No. 1, section 1.1.
"IIROC Membership Disclosure Policy"	The policy setting out *IIROC's* Membership disclosure requirements, as made available on *IIROC's* website.
"IIROC requirements"	Requirements set out within *IIROC's* articles, by-laws and rules, along with all other instruments prescribed or adopted within *IIROC's* by-laws and rules, and rulings of *IIROC* and the *District Councils*.
"individual"	A natural person.
"industry member"	A current or former director, officer, partner or employee of a *Member* or *Regulated Person*, or an *individual* who is otherwise suitable and qualified for appointment to a *hearing committee.*
"institutional client"	(i) An *acceptable counterparty*, (ii) an *acceptable institution*, (iii) a *regulated entity*, (iv) a registrant under *securities law*, other than an *individual* registrant, or (v) a non-*individual* with total securities under administration or management of more than $10 million.
"internal controls"	The financial and operational policies and procedures established, maintained and applied by the *Dealer Member's* management toprovide reasonable assurance of the orderly and efficient conduct of the *Dealer Member's* business.
"inter-dealer bond broker"	A *person* that provides information, trading and communications services for domestic *debt securities* trading among *inter-dealer bond broker clients* (defined in section 7302).
"introducing broker"	A *Dealer Member* that introduces its client accounts to one or more *carrying brokers*, in accordance with the requirements set out in Rule 2450.
"investigation"	The powers of *IIROC* to initiate and conduct enforcement

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	investigations as set out in Rule 8100.
"Investment Representative"	An *individual*, approved by *IIROC*, to trade in, but not advise on, securities, *options*, *futures contracts* or *futures contract options*, on the *Dealer Member's* behalf, including where that *individual* deals only in mutual funds.
"managed account"	An account which is subject to a suitability obligation where: (i) investment decisions are made on a continuing basis by a *Portfolio Manager* or an *Associate Portfolio Manager* or a third party hired by the *Dealer Member*, and (ii) the *Dealer Member,* or a third party hired by the *Dealer Member,* and the *Portfolio Manager* or *Associate Portfolio Manager* are responsible for all investment decisions made.
"manipulative and deceptive activities"	Any manipulative or deceptive methods, act or practice in connection with any order or trade on a marketplace, and includes the entry of an order or the execution of a trade that would create or could reasonably be expected to create: (i) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security, or (ii) an artificial ask price, bid price or sale price for the security or a related security.
"Marketplace"	The same meaning as set out in General By-law No. 1, section 1.1.
"Marketplace Member"	The same meaning as set out in General By-law No. 1, section 1.1.
"market value"	The same meaning as set out in Form 1, General Notes and Definitions.
"Member"	The same meaning as set out in General By-law No. 1, section 1.1.
"Membership"	*IIROC* membership.
"Monitor"	A *person* appointed under section 8209 or 8212 to monitor a *Regulated Person's* business and affairs and to exercise powers granted by a *hearing panel.*
"National Hearing Coordinator"	A *person* appointed by *IIROC* who is responsible for the administration of enforcement and other proceedings under *IIROC requirements* and other employees of *IIROC* to whom the *person* delegates the performance of such functions.
"non-client accounts" or "non-client orders"	Accounts or orders in which the *Dealer Member* or an *Approved Person* has a direct or indirect interest other than the commission charged.

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"officer"	A *Dealer Member's* chair or vice-chair of the board of directors, chief executive officer, president, chief administrative officer, *Chief Compliance Officer*, *Chief Financial Officer*, chief operating officer, vice-president, secretary, any other person designated an officer of a *Dealer Member* by law or similar authority, or any person acting in a similar capacity on behalf of a *Dealer Member*.
"option"	A *derivative* contract that: (i) gives the purchaser the right, but not the obligation, to buy or sell an underlying asset at a certain price (exercise price) on or before an agreed upon date, and (ii) imposes on the seller an obligation, if called upon by the purchaser, to buy in the case of puts, or sell in the case of calls, at the exercise price.
"order execution only account"	An account which is not subject to a suitability obligation where: (i) the client is solely responsible for making all investment decisions, and (ii) the *Dealer Member* provides no recommendation to purchase, sell, hold or exchange any security, including any class of security or security of a class of issuer.
"party"	A party to a proceeding under *IIROC requirements*, including *Enforcement Staff* and *IIROC* staff.
"person"	An *individual*, a partnership, a corporation, a government or any of its departments or agencies, a trustee, an incorporated or unincorporated organization, an incorporated or unincorporated syndicate or an *individual's* heirs, executors, administrators or other legal representatives.
"Portfolio Manager"	An *individual* designated by the *Dealer Member* and approved by *IIROC* to provide discretionary portfolio management for *managed accounts*.
"President"	The same meaning as set out in General By-law No. 1, section 1.1.
"public member"	A public member in relation to a *hearing committee* means: (i) a current or retired member of the law society of a province, other than Québec, who is in good standing at the law society, or (ii) in Québec, a current or retired member of the Barreau du Québec, who is in good standing at the Barreau.
"recognized foreign self-regulatory organization"	A foreign self-regulatory organization which offers reciprocal treatment to Canadian applicants and which has been recognized by *IIROC* as such.

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"records"	Books, records, client files and information and other documentation, including electronic documents, related to the *Regulated Person's* business.
"Registered Representative"	An *individual*, approved by *IIROC*, to trade, or advise on trades, in securities, *options*, *futures contracts*, or *futures contract options* with the public in Canada, on the *Dealer Member's* behalf, including where that *individual* deals only in mutual funds or only with *institutional clients*.
"regulated entity"	The same meaning as set out in Form 1, General Notes and Definitions.
"Regulated Persons"	The same meaning as set out in General By-law No. 1, section 1.1.
"related company"	A sole proprietorship, partnership or corporation that is a *Dealer Member* and is related to another *Dealer Member* because: (i) it, or its *Executives*, *Directors*, *officers*, shareholders or *employees* (individually or collectively) have at least a 20% ownership interest in the other *Dealer Member*, or (ii) the other *Dealer Member*, or its *Executives*, *Directors*, *officers*, shareholders or *employees* (individually or collectively) have at least a 20% ownership interest in it, where the ownership interest includes an interest as a partner or shareholder, either directly or indirectly, or an interest through one or more *holding companies*. But if the *Board* has ordered that two *persons* are, or are not, related companies under the *IIROC requirements*, that order defines their relationship under the *IIROC requirements*.
"remuneration"	Any benefit or consideration, including goods and service, monetary or otherwise that could be provided to or received by a *person*.
"repurchase agreement"	An agreement to sell and repurchase securities.
"research report"	Any written or electronic communication for distribution to clients or prospective clients containing an *analyst's* recommendation about the purchase, sale or holding of a security, excluding any government *debt security* or any government guaranteed *debt security*.
"respondent"	A *person* who is the subject of a proceeding or settlement under *IIROC requirements*.
"reverse repurchase agreement"	An agreement to purchase and resell securities.
"retail client"	A client that is not an *institutional client*.
"risk adjusted capital"	The capital level maintained by a *Dealer Member*, calculated in

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	accordance with *IIROC requirements* set out in Form 1.
"Rules of Procedure"	The rules of practice and procedure under Rule 8400.
"safekeeping"	The holding of securities by a *Dealer Member* for a client in accordance with the requirements set out in Part A of Rule 4400.
"sales literature"	Any written or electronic communication for client use which contains a recommendation relating to a security or *trading strategy* (defined in section 3602), but does not include: (i) any communication that is an *advertisement* or *correspondence,* or (ii) preliminary prospectuses and prospectuses.
"sanction"	A penalty imposed by a *hearing panel* or a penalty or other measure imposed under a *settlement agreement*.
"securities laws"	Any laws about trading, distributing, advising or any other related activities in securities, *futures contracts, futures contract options* or *derivatives* in Canada enacted by the government of Canada or any province or territory in Canada and all regulations, rules, orders, judgments and other regulatory directions relating to such laws.
"securities regulatory authority"	Any commission or *person* in Canada, or any province or territory in Canada, authorized to administer *securities laws* and any *person* approved, recognized or authorized as an *SRO* by such commission.
"securities related business"	Any business or activity (whether or not carried on for gain) engaged in, directly or indirectly, which constitutes trading or advising in securities or exchange contracts (including *futures contracts* and *futures contract options*) for the purposes of *securities laws*, including for greater certainty, sales pursuant to exemptions under *securities laws*.
"segregation"	A practice whereby a *Dealer Member* holds in trust client securities that are: (i) held free and clear of any charge, lien, claim or encumbrance of any kind, (ii) ready for delivery to a client on demand, and (iii) held separate from the *Dealer Member's* own security holdings.
"settlement agreement"	A written agreement between *IIROC* staff and a *respondent* to settle a proceeding or proposed proceeding under Rule 8200.
"settlement hearing"	A *hearing* relating to a *settlement agreement*.
"shared office premises"	Premises a *Dealer Member* shares with another regulated Canadian financial service entity that is involved in financial

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	activities, such as banking, mutual funds, insurance, deposit taking or mortgage brokerage activities.
"significant area of risk"	A function, process or an activity within a *Dealer Member* in which a failure to mitigate or control its risk could lead to material harm to the *Dealer Member's* liquidity, solvency, operational capabilities, clients, client assets and other client positions.
"SRO"	The same meaning as defined in National Instrument 14-101.
"subordinated debt"	Debt that does not entitle the holder to be paid in priority to any senior class of debt.
"subsidiary"	Subsidiary of an entity means: (i) an entity it *controls*, (ii) a corporation it *controls* and one or more corporations *controlled* by that corporation, or (iii) a corporation *controlled* by two or more corporations it *controls*, and includes a corporation that is a subsidiary of another subsidiary of a corporation.
"Supervisor"	An *individual* given responsibility and authority by a *Dealer Member*, and approved by *IIROC*, to manage the activities of the *Dealer Member* or the *Dealer Member's Approved Persons* or *employees* to provide reasonable assurance they comply with *IIROC requirements* and *securities laws*.
"total margin required"	The same meaning as set out in Statement B of Form 1.
"Trader"	An *individual*, approved by *IIROC* as a trader, whose activity is restricted to trading through a *Marketplace Member's* trading system, and who may not advise the public.
"Ultimate Designated Person"	An *individual* approved by *IIROC* to be responsible for the conduct of a designated *Dealer Member* and the supervision of its *employees* and to perform the functions for an ultimate designated person described in the *IIROC requirements*.
"written cash and securities loan agreement"	A written cash loan agreement or securities loan agreement, other than an *overnight cash loan agreement* (as defined in section 4602), where the *Dealer Member* receives or pays cash or, provides or receives securities, that contains the minimum provisions described in Part B of Rule 4600.

1202. – 1299. Reserved.

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RULE 1300

EXEMPTIVE POWERS OF IIROC

1301. Introduction

(1) Rule 1300 describes the powers of *IIROC* to provide exemptions from *IIROC requirements*.

1302. Exemptions from the IIROC requirements

(1) Unless otherwise prescribed by *IIROC requirements*, the *Board* may exempt a *Dealer Member* from any *IIROC requirement* if satisfied that doing so would not be prejudicial to the interests of the public, *Dealer Members* or their clients. In granting an exemption, the *Board* may impose any terms or conditions that it considers necessary.

1303. – 1399. Reserved.

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RULE 1400

STANDARDS OF CONDUCT

1401. Introduction

Rule 1400 sets out the general standards of conduct that apply to *Regulated Persons*.

1402. Standards of conduct

(1) A *Regulated Person:*

(i) in the transaction of business must observe high standards of ethics and conduct and must act openly and fairly and in accordance with just and equitable principles of trade, and

(ii) must not engage in any business conduct that is unbecoming or detrimental to the public interest.

(2) Without limiting the generality of the foregoing, any business conduct that:

(i) is negligent,

(ii) fails to comply with a legal, regulatory, contractual or other obligation, including the rules, requirements, and policies of a *Regulated Person*,

(iii) displays an unreasonable departure from standards that are expected to be observed by a *Regulated Person*, or

(iv) is likely to diminish investor confidence in the integrity of securities, futures or *derivatives* markets,

may be conduct that contravenes one or more of the standards set forth in subsection 1402(1).

1403. Applicability

(1) For purposes of *IIROC requirements*:

(i) *Dealer Members* are responsible for all acts and omissions of their *employees*, partners, *Directors* and *officers*, and

(ii) non-*Dealer Member* users and subscribers to a *Marketplace* for which *IIROC* is the regulation services provider are responsible for all acts and omissions of their employees, partners, directors, and officers.

(2) In addition to complying with all *IIROC requirements*:

(i) an *Approved Person* must avoid any act or omission that would cause his or her *Dealer Member* to violate any *IIROC requirements*, and

(ii) an employee, partner, director or officer of a non-*Dealer Member* user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider must avoid any act or omission that would cause the user or subscriber to violate any *IIROC requirements*.

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(3) For purposes of section 1402, the obligation of *Regulated Persons* that are non-*Dealer Member* users or subscribers of a *Marketplace* for which *IIROC* is the regulation services provider is limited to the obligation to transact business openly and fairly when trading on a *Marketplace* or otherwise dealing in securities that are eligible to be traded on a *Marketplace*.

1404. Policies and procedures

(1) A *Dealer Member* must establish, maintain and apply written policies and procedures regarding the conduct of its business activities and operations.

(2) A *Dealer Member* must establish, maintain and apply written policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance the *Dealer Member*, its *employees* and *Approved Persons* comply with *IIROC requirements*. A *Dealer Member* may establish more stringent policies and procedures than those needed to comply with such requirements.

(3) Guidelines and best practices set out in *IIROC* guidance are generally intended to present acceptable methods that can be used to comply with specific *IIROC requirements*. Unless otherwise indicated, *Dealer Members* may use alternate methods, provided that those methods demonstrably achieve the overall objective of the *IIROC requirements*.

(4) *IIROC* may require a *Dealer Member* to adopt additional or different policies and procedures if the existing policies and procedures are insufficient to comply with *IIROC requirements*.

1405. Evidence of compliance with the IIROC requirements

(1) A *Dealer Member* must establish a compliance system for monitoring compliance with *IIROC requirements* and *securities laws*. The compliance monitoring systems must specifically address preventing and detecting violations and include procedures for reporting the results of compliance monitoring to management.

(2) A *Dealer Member* must keep all *records* and evidence of its compliance with *IIROC requirements* that it produces, including supervisory reviews, reports and queries on compliance.

(3) *IIROC* may require a *Dealer Member* to provide it with evidence, satisfactory to *IIROC*, of the *Dealer Member's* compliance with *IIROC requirements.*

1406. Compliance with all applicable laws

(1) A *Dealer Member* must comply with all relevant *IIROC requirements, securities laws* and *applicable laws* that are applicable to the *Dealer Member's* activities.

(2) Where there is an inconsistency between any *IIROC requirements*, *securities laws* and *applicable laws* that apply to the *Dealer Member's* activities, compliance with the most stringent of the *IIROC requirements*, *securities laws* or *applicable laws* is required.

1407. – 1499. Reserved.

IIROC Rule

RULE 1500

MANAGING SIGNIFICANT AREAS OF RISK

1501. Introduction

(1) As a key element of *IIROC's* regulatory framework, *IIROC* expects that, for every *significant area of risk* within a *Dealer Member,* an appropriate *Executive* be responsible for managing such area of risk.

1502. Responsibility for significant areas of risk

(1) For each *significant area of risk* within a *Dealer Member*, the *Dealer Member* must assign responsibility to an appropriate *Executive*. For certain *significant areas of risk*, *IIROC* has assigned the responsibility to a specific *Executive* as set out in the *IIROC requirements*.

(2) The *Dealer Member* must document and maintain a list of *Executives* and the *significant areas of risk* each *Executive* is responsible for managing.

(3) *Executives* are responsible for the review and approval of any policies and procedures relating to their *significant area of risk*.

1503. – 1999. Reserved.

IIROC Rule

RULE 2100

OWNERSHIP OF A DEALER MEMBER'S SECURITIES

2101. Introduction

(1) Rule 2100 covers the issuance of securities by a *Dealer Member* or its *holding company* and changes in ownership.

(2) A *Dealer Member* must conduct its business with integrity and must maintain adequate financial resources. *IIROC* has a responsibility to ensure that *person*s who have an interest in a *Dealer Member* are fit and proper. *IIROC* also needs to assess whether the obligations incurred by a *Dealer Member* under the terms of securities it issues pose a risk to the *Dealer Member*.

2102. Definitions

(1) The following terms have the meaning set out below when used in sections 2103 through 2117:

"industry investor"	Any of the following that hold a *beneficial ownership* interest in a *Dealer Member* or its *holding company*: (i) a full-time *officer* or *employee* of the *Dealer Member*, or of a *related company* or *affiliate* of the *Dealer Member*, that conducts *Dealer Member related activities*. (ii) a spouse of an *individual* referred to in clause (i) of this definition, (iii) an investment corporation, if: (a) all of the *individuals* referred to in clause (i) of this definition collectively hold the majority of each class of voting securities of the investment corporation, or (b) all of the *beneficial owners* of all other *equity securities* of the investment corporation are: (I) *individuals* referred to in clauses (i) or (ii) of this definition, (II) children of *individuals* referred to in clauses (i) and (ii) of this definition, or (III) *individuals* and organizations that separately qualify as *industry investors* of a *Dealer Member* or its *holding company*, (iv) a family trust established and maintained for the benefit of *individuals* referred to in clauses (i) and (ii) of this definition or their children, if: (a) all of the *individuals* referred to in clauses (i) or (ii) this

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		definition collectively have full direction and control of the trust, including its investment portfolio and the exercise of voting and other rights of the trust's investments, and (b) all of the trust's beneficiaries are: (I) *individuals* referred to in clauses (i) or (ii) of this definition, (II) children of *individuals* referred to in clauses (i) and (ii) of this definition, or (III) *individuals* and organizations that separately qualify as *industry investors* of the *Dealer Member* or its *holding company*, (v) a registered retirement savings plan, established under the Income Tax Act (Canada), of an *individual* referred to in clauses (i) or (ii) of this definition if that *individual* has control of its investment policy and has the only *beneficial ownership* interest in the registered savings plan, (vi) the *Dealer Member's* pension fund if the investment decisions relating to that pension fund are made by the *individuals* referred to in clause (i) of this definition, (vii) an estate of an *individual* referred to in clauses (i) or (ii) of this definition for one year after the death of the *individual,* or such longer period allowed by the *applicable District Council*, or (viii) any *individual* or organization, for a period of 90 days, or such longer period as *IIROC* may permit, after: (a) the date the *individual* is no longer an *employee* of the *Dealer Member*, its *related company* or *affiliate*, in the case of an *individual* that previously qualified as an *industry investor* under clause (i) of this definition, or (b) the *person* through whom the *individual* or organization previously qualified as an *industry investor* is no longer an *employee* of the *Dealer Member*, its *related company* or *affiliate*, in the case of *individuals* and organizations that previously qualified as an *industry investor* under clauses (ii) through (v) of this definition. An *industry investor* must be approved by the board of directors of the *Dealer Member* or its *holding company*. The *industry investor* must also be approved by the *applicable District Council* if the *industry investo*r has a *significant equity interest* in the *Dealer Member* or its *holding company*.
	"qualified independent underwriter"	For a distribution of a *Dealer Member's* securities or its *holding company's* securities, it means another *Dealer Member*: (i) which has been in the securities business for no less than the five years immediately preceding the date that the prospectus (or other

	equivalent document) is filed, (ii) where, as of the distribution date, the majority of its board of directors (if a corporation) or the majority of its general partners (if a partnership), have been in the securities business for no less than the five years immediately preceding the distribution date, (iii) which has underwritten public offerings of securities for no less than the five years immediately preceding the distribution date, and (iv) which is not an *associate* or *affiliate* of the issuing entity.
"significant equity interest"	(i) A holding of 10% or more of the voting securities of a *Dealer Member* or its *holding company*, (ii) a holding of 10% or more of the outstanding participating securities of a *Dealer Member* or its *holding company*, or (iii) an interest of 10% or more of the total equity of the *Dealer Member*.

2103. Dealer Members must have IIROC approval to issue subordinated debt

(1) A *Dealer Member* or its *holding company* must obtain *IIROC's* approval in writing before issuing a security representing *subordinated debt*.

(2) A *Dealer Member* or its *holding company* must obtain *IIROC's* approval in writing before signing an agreement to issue *subordinated debt* in the future.

2104. Repayments and additional subordinated debt

(1) A *Dealer Member* must obtain *IIROC's* approval in writing before it can issue any additional securities representing *subordinated debt* or repay any *subordinated debt*.

2105. Agreements with IIROC

(1) Where *IIROC* is a party to a *subordinated debt* agreement or other debt agreement with the *Dealer Member*, the *Dealer Member* must comply with the agreement in making any repayments of the debt subject to the agreement.

2106. IIROC notification of changes of ownership

(1) A *Dealer Member* must notify *IIROC* in writing and file the form specified by *IIROC* at least 20 days before issuing or transferring its securities or its *holding company's* securities, including any legal or *beneficial ownership* interest in either.

(2) Subsection 2106(1) does not apply to a class of securities if:

(i) there is public ownership of those securities as a result of a distribution made in compliance with *securities laws*, and

(ii) the purchase or transfer will not result in an acquirer of the securities owning a *significant equity interest.*

2107. Ownership of another Dealer Member

(1) An *industry investor* is prohibited from purchasing the securities of a *Dealer Member* or its *holding company*, other than in the *Dealer Member* or *holding company* in which the *industry investor* is

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approved, except if:

(i) there is public ownership of the class of securities as a result of a distribution made in compliance with *securities laws* and the *industry investor* will not hold a *significant equity interest*,

(ii) the *Dealer Member* is a *related company* or an *affiliate* of the *Dealer Member* in which the *industry investor* was approved to invest, or

(iii) the following apply:

(a) the investment does not exceed 10% of any class of the issued equity or voting shares,

(b) the *industry investor* notified *IIROC* of the investment,

(c) where the *industry investor* is regulated by another *securities regulatory authority*, the *industry investor* has provided *IIROC* with evidence that the *securities regulatory authority* does not object to the relationship, and

(d) the *Dealer Member* that the *industry investor* was approved to invest in does not object to the investment.

2108. Ownership of a significant equity interest and ownership of assets

(1) For the purpose of section 2108, "all or a substantial part of the assets" of a registered firm includes, among other things, a registered firm's book of business, business line or division of the firm.

(2) A *Dealer Member* must file the form specified by *IIROC* and obtain approval from the *applicable District Council* before allowing a *person*, alone or together with *associates* and *affiliates*, to directly or indirectly, own or hold a *beneficial ownership* interest in:

(i) a *significant equity interest* in the *Dealer Member*, or

(ii) special warrants or other securities that are convertible into a *significant equity interest* in the *Dealer Member*.

(3) The written request for approval under subsection 2108(2) must be delivered to the *applicable District Council* at least 30 days before the proposed ownership change and must include all relevant facts regarding the ownership change sufficient to enable the *applicable District Council* to determine if the ownership change is:

(i) likely to give rise to a conflict of interest,

(ii) likely to hinder the *Dealer Member* in complying with *IIROC requirements* or *securities laws*,

(iii) inconsistent with an adequate level of investor protection, or

(iv) otherwise prejudicial to the public interest.

(4) Subsection 2108(2) does not apply to the legal representatives of a deceased person who had been approved by the *applicable District Council* as the owner of a *significant equity interest*. The legal representatives can continue as a registered holder or to hold a *significant equity interest* for a period as permitted by the *applicable District Council*.

(5) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

(6) A *Dealer Member* must file a written request for approval from the *applicable District Council* at least

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30 days before the proposed acquisition if it proposes to acquire all or a substantial part of the assets of a registered firm, or if all or a substantial part of the *Dealer Member* assets are to be acquired, and must include all relevant facts regarding the proposed acquisition sufficient to enable the *applicable District Council* to determine if the acquisition is:

(i) likely to give rise to a conflict of interest,

(ii) likely to hinder the *Dealer Member* in complying with *IIROC requirements* or *securities laws*,

(iii) inconsistent with an adequate level of investor protection, or

(iv) otherwise prejudicial to the public interest.

(7) A *Dealer Member* must not complete a proposed acquisition requiring notice under subsection 2108(6) until the *applicable District Council* approves the proposed acquisition.

(8) *Dealer Members* acquiring securities or assets of another registered firm for a client in nominee name do not need to provide notice under Rule 2100.

2109. A Dealer Member's ownership of another Dealer Member

(1) A *Dealer Member* or its *holding company* must obtain approval from the *applicable District Council* before purchasing, directly or indirectly, any securities of another *Dealer Member* or its *holding company*. However, this does not apply if the ownership is a trading position held in the ordinary course of the securities business.

(2) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

2110. Public ownership

(1) A *Dealer Member* must obtain approval from the *applicable District Council* before allowing public ownership of the *Dealer Member's* securities or of its *holding company's* securities.

(2) When a *District Council* considers an application for approval:

(i) the *Dealer Member* must satisfy the *District Council* that it complies with, and will continue to meet, *IIROC requirements*,

(ii) the *District Council* may require the *Dealer Member* to provide a legal opinion and any other information the *District Council* considers necessary, and

(iii) the *District Council* may impose conditions on and require undertakings from any *person* it considers necessary to provide reasonable assurance of continuing compliance with *IIROC requirements*.

(3) Regardless of its own governing corporate statute, a

(i) *Dealer Member,* or

(ii) *holding company* of a *Dealer Member,*

that is a reporting issuer or equivalent in any Canadian jurisdiction must set up and maintain an audit committee as the Canada Business Corporations Act requires.

(4) A *District Council* may exempt a *Dealer Member* or its *holding company* from subsection 2110(3).

(5) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

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2111. Public distribution of a Dealer Member's securities

(1) A *Dealer Member* or its *holding company* making a public distribution of its securities must include in the prospectus, or equivalent document, summaries of at least two separate valuations of its securities, if:

(i) the *Dealer Member* is underwriting more than 25% of the distribution itself, or

(ii) the distribution is offered on an agency or best efforts basis.

(2) *Qualified independent underwriters* or chartered accountants must prepare the valuations and summaries. A *qualified independent underwriter* participating in the distribution may prepare a valuation.

(3) Subsection 2111(1) does not apply if securities with identical attributes have been trading on an *acceptable exchange* in Canada for at least six months before the new distribution begins.

2112. Take-over bids or amalgamations

(1) A *Dealer Member* or its *holding company* must obtain at least two separate valuations of its securities if they are distributed through a transaction such as a take-over bid or amalgamation resulting in a publicly traded market for the securities.

(2) *Qualified independent underwriters* or chartered accountants must prepare the valuations and summaries. A *qualified independent underwriter* participating in the distribution may prepare the valuations and summaries.

(3) Subsection 2112(1) does not apply if:

(i) securities with identical attributes have been trading on an *acceptable exchange* in Canada for at least six months before the transaction, or

(ii) the circumstances of the transaction, such as the terms of the transaction, were arrived at through arm's length negotiations and the *applicable District Council*, or its delegate, determines that valuations are not required.

2113. Secondary distribution of securities

(1) The requirements of sections 2111 and 2112 apply, with necessary changes, to a secondary distribution of securities of a *Dealer Member* or its *holding company* if the securities are distributed from a *control* position.

2114. Soliciting trades in a Dealer Member's securities

(1) A *Dealer Member* may solicit trades in its own securities or those of its *holding company* when:

(i) making a distribution of its own securities under a prospectus in compliance with *IIROC requirements* and *securities laws*, or

(ii) making a private placement of its own securities under *securities laws*.

(2) A *Dealer Member* must not solicit trades in its own securities or its *holding company* in the secondary market.

(3) A *Dealer Member* may accept unsolicited orders for its own securities or those of its *holding company*.

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2115. Dealer Member's securities in client accounts

(1) A *Dealer Member* may accept its own securities or those of its *holding company* as security for a margin account subject to *IIROC requirements* including, but not limited to, Schedule 9 of Form 1.

(2) A *Dealer Member* must not allow a *discretionary account* to hold the *Dealer Member's* securities or those of its *holding company*.

2116. Research reports

(1) A *Dealer Member* must not issue research reports or opinion letters on its own securities or those of its *holding company*.

2117. IIROC approvals

(1) A *Dealer Member* must apply to *IIROC* to obtain an approval required under Rule 2100.

(2) The *Dealer Member's* application will be considered by the *applicable District Council*.

(3) The applicant must pay the prescribed fee.

(4) Within 10 days after any event that gives rise to a change in the information submitted pursuant to an application for approval, including any bankruptcy or criminal proceedings, the applicant and the *Dealer Member* or *holding company* involved must inform *IIROC* of the change in the applicant's information.

(5) A *District Council* may refuse an application for approval or may withdraw any approval it has granted.

(6) A *District Council* may delegate their authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

2118. - 2199. Reserved.

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RULE 2200

DEALER MEMBER ORGANIZATION

2201. Introduction

(1) A *Dealer Member* must take reasonable care to organize and manage its business responsibly and effectively. A *Dealer Member's* business must be organized to enable adequate supervision of all of its activities and cannot be organized to avoid *IIROC requirements*.

(2) Rule 2200 is divided into the following parts:

Part A – Dealer Member Structure

Part A.1 – Business locations
[section 2202]

Part A.2 – Holding companies, related companies and order execution only service providers
[sections 2205 through 2207]

Part A.3 – Non-securities business and shared premises
[sections 2215 and 2216]

Part B – Dealer Member Membership Changes
[sections 2220 through 2228]

Part C – Business Change Notification Requirements
[sections 2245 through 2248]

Part D – Branch Offices of Dealer Members
[sections 2265 through 2268]

Part E – Trade Names and Disclosures
[sections 2280 through 2285]

Part A – DEALER MEMBER STRUCTURE

Part A.1 - Business locations

2202. Business locations

(1) Under sub-clause 2803(2)(i)(g), a *Dealer Member* must notify *IIROC* of the opening or closing of a *business location*.

2203. – 2204. Reserved.

Part A.2- Holding companies, related companies and order execution only service providers

2205. Holding companies

(1) A *Dealer Member* must ensure that all its *holding companies* carrying on business in Canada are legally bound to comply with *IIROC requirements* applicable to *holding companies*.

(2) A *Dealer Member's holding company* may be another *Dealer Member's holding company* if:

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(i) the *holding company* owns all of the voting securities and participating securities of a *Dealer Member*, or

(ii) the *Dealer Member* obtains approval from the *District Council* or its delegate to become the *holding company* of a second *Dealer Member*.

2206. Related companies

(1) A *Dealer Member*, or an *employee, Approved Person,* or investor of a *Dealer Member,* must obtain approval from the *applicable District Council* before it sets up, or acquires any interest in, a *related company* or *associate*.

(2) A *Dealer Member* must obtain approval from the *applicable District Council* before creating a wholly owned *subsidiary* whose principal business is a securities broker, dealer or adviser.

(3) A *Dealer Member* must be responsible for and *guarantee* its *related companies*' obligations to clients, and each of its *related companies* must be responsible for and *guarantee* the *Dealer Member's* obligations to its clients, as follows:

(i) a *Dealer Member* that holds an interest in a *related company* must *guarantee* an amount equal to 100% of the *Dealer Member's* financial statement capital,

(ii) a *Dealer Member* that holds an interest in a *related company* must have the *related company guarantee* an amount equal to the *Dealer Member's* percentage ownership multiplied by the *related company's* financial statement capital, and

(iii) where two *related companies* are related because the same *person* has an ownership interest of at least 20% in each of them, the *related companies* must *guarantee* each other for an amount equal to that *person's* ownership percentage multiplied by the company*'s* financial statement capital.

(4) A *Dealer Member,* and each of the *Dealer Member's related companies* that are required to *guarantee* an amount under subsection 2206(3), must sign the current *IIROC guarantee* form.

(5) The *Board* may exempt a *Dealer Member* from subsection 2206(3), or may decide that a *guarantee* for a greater amount is required.

(6) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

2207. Approval as an order execution only account services provider

(1) *IIROC* may approve a *Dealer Member* or a business unit of a *Dealer Member* to be an *order execution only account* service provider if the *Dealer Member's* only business is an *order execution only account se*rvice provider or it provides that service in a separate business unit.

(2) A *Dealer Member* that is offering *order execution only account* services must comply with all *IIROC requirements* other than those for which compliance is specifically exempted.

(3) A *Dealer Member's* policies and procedures must specifically address the operation of its *order execution only account* services.

(4) If operating as a separate business unit within a *Dealer Member*, an *order execution only account* services provider must have separate letterhead, accounts and account documentation, and its *Registered Representative*s and *Investment Representatives* may not work for any other business

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unit within the *Dealer Member*.

(5) A *Dealer Member* must not compensate *employees* by giving them trade commissions for transactions executed in *order execution only accounts*.

2208. – 2214. Reserved.

Part A.3- Non-securities business and shared premises

2215. Business other than securities

(1) A *Dealer Member* must obtain approval from the *applicable District Council* before carrying on any business other than *Dealer Member related activities*.

(2) A *Dealer Member* or a *Dealer Member's holding company* may, without approval, own an interest in a corporation (other than the *Dealer Member*) that carries on non-securities business if:

(i) the *Dealer Member* is not responsible for any of that corporation's liabilities, and

(ii) the *Dealer Member* and its *holding company* give *IIROC* notice before acquiring an interest in the non-securities corporation.

(3) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

2216. Shared office premises

(1) For the purposes of section 2216, a "financial services entity" means an entity regulated by a *securities regulatory authority* or by another Canadian financial services regulatory regime such as banking, mutual funds, insurance, deposit-taking, or mortgage brokerage activities.

(2) A *Dealer Member* may share premises with another *financial services entity*, whether or not they are *related companies* or *affiliate* companies, in accordance with section 2216. This section applies to *Dealer Members* dealing with *retail clients*.

(3) A *Dealer Member* must ensure that clients clearly understand which legal entity they are dealing with.

(4) A *Dealer Member's* policies and procedures must specifically address:

(i) supervision of *shared office premises*,

(ii) representative compliance with *IIROC requirements,* and

(iii) that clients clearly understand which entity they are dealing with.

(5) A *Dealer Member* must have:

(i) adequate supervisory resources to carry out its supervisory procedures,

(ii) a system for communicating *IIROC requirements* to representatives at the *shared office premises*, and

(iii) a process that provides reasonable assurance representatives understand and comply with *IIROC requirements*.

(6) A *Dealer Member's shared office premises* must be laid out and operated in a manner that ensures the control and confidentiality of client information and client *records* by ensuring that client *records* and account process areas are effectively controlled and physically secure.

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(7) A *Dealer Member* must have appropriate signs and disclosure which differentiates the entities sharing the premises.

(8) The legal names under which the *Dealer Member* and each of the other financial services entities operate must be clearly displayed in a prominent location, such as the office entrance door or reception area.

(9) The *Canadian Investor Protection Fund* logo and brochures must be displayed in a manner that makes it clear that they are applicable only to the *Dealer Member* and not to any other *financial services entity*.

(10) When doing business in *shared office premises*, a *Dealer Member* must comply with Part E of Rule 2200.

(11) A *Dealer Member* must keep client *records* separate from the records of another *financial services entity* as follows:

- (i) the *financial services entity* must not have access to the client's hard copy *records*, and
- (ii) electronic *records* must have separate passwords or another similar control to ensure the *financial services entity* has no access to the electronic client *records* of the *Dealer Member*.

(12) When a *Dealer Member*, operating in a *shared office premises* opens an account, the *Dealer Member* must obtain the client's specific acknowledgement of a written disclosure statement:

- (i) outlining the relationship between the *Dealer Member* and the *financial services entity* sharing the premises, and
- (ii) stating that the entities are separate.

(13) A *Dealer Member* must keep client information confidential and can only share the information with other *financial services entities* in the *shared office premises* if:

- (i) the client has consented to the disclosure of confidential information in compliance with applicable federal, provincial, and territorial privacy legislation and regulations, and
- (ii) the client has consented to the disclosure of client information through a specific confirmation such as a signature or initials at a designated place. A *Dealer Member* must not obtain a client's consent through a negative consent option.

(14) An *employee* who works for both the *Dealer Member* and another *financial services entity* must not disclose client information from one organization to the other unless performing a relevant service that the client has specifically consented to and the client has consented to the disclosure of the client information.

(15) Non-registered personnel employed by the *Dealer Member* or representatives of the *financial services entity* may not provide the following services on behalf of the *Dealer Member*:

- (i) opening accounts,
- (ii) distributing or receiving order forms for securities transactions,
- (iii) assisting clients to complete order forms for securities transactions,
- (iv) giving recommendations or any advice on any activity,
- (v) completing know-your-client information on a New Account Application, other than biographical information, and
- (vi) soliciting securities transactions.

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(16) Non-registered personnel employed by the *Dealer Member* or representatives of the *financial services entity* may provide the following services on behalf of the *Dealer Member*:

(i) advertising the *Dealer Member's* services and products,

(ii) delivering or receiving clients' securities,

(iii) arranging client appointments or informing of deficiencies on completed forms,

(iv) providing the status, balances, and holdings of client accounts,

(v) providing quotes and other market information,

(vi) contacting the public, inviting the public to seminars, and forwarding non-securities information,

(vii) distributing New Account Applications, subject to subsection 2216(17), and

(viii) receiving completed New Account Applications to forward to the *Dealer Member* for approval.

(17) At the *shared office premises*, a manager, assistant manager or credit officer of the *financial services entity* who has a high degree of knowledge about the client's financial affairs may help the client to complete the New Account Application, if:

(i) no *Approved Person* is available,

(ii) the client's *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* complies with *IIROC requirements* relating to know-your-client and suitability by reviewing the New Account Application with the client before any trade is conducted or a recommendation is made to a client, and

(iii) a *Supervisor* has approved the New Account Application before any trade is conducted for a client.

(18) A mutual fund sales *person* may only accept orders for accounts at the dealer which he or she is registered with and may not:

(i) offer, or advise clients on, equities or other transactions for which specific proficiency is required, or

(ii) communicate those client orders to a qualified *person*.

2217. – 2219. Reserved.

Part B - DEALER MEMBER MEMBERSHIP CHANGES

2220. Introduction

(1) Part B of Rule 2200 sets out how *IIROC* deals with changes to the *Membership* of *Dealer Members*.

2221. Notice of intention to resign

(1) If a *Dealer Member* intends to resign, it must notify *IIROC* in writing of its intention by filing a letter of resignation. *IIROC* will issue a Notice advising of the *Dealer Member's* intention to resign within one week of receiving a *Dealer Member's* intent to resign.

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2222. Letter of resignation and supporting documents

(1) A resigning *Dealer Member* must state its reasons for resigning in its resignation letter and file the following supporting documents with *IIROC*:

(i) audited financial statements indicating the *Dealer Member* has liquid assets sufficient to meet its outstanding liabilities other than subordinated loans, and

(ii) a report from the *Dealer Member's auditor* indicating that all client accounts and assets have been transferred to another *Dealer Member* or returned to the clients.

2223. Acquisition and resignation

(1) If all or a substantial part of the business and assets of a resigning *Dealer Member* is acquired by another *Dealer Member*, the resigning *Dealer Member* must provide *IIROC* with:

(i) either, an undertaking from the acquiring *Dealer Member* accepting responsibility for all outstanding liabilities of the resigning *Dealer Member*, or the documents required under section 2222, and

(ii) pro forma financial statements of the acquiring *Dealer Member* showing compliance with *IIROC requirements* relating to capital requirements.

2224. Amalgamation of Dealer Members

(1) If two or more *Dealer Members* are amalgamated, the *Dealer Members* not continuing due to the amalgamation must surrender their *membership*. The continuing *Dealer Member* must provide *IIROC* with:

(i) an undertaking that it accepts responsibility for all liabilities of the *Dealer Members* that are amalgamating, and

(ii) pro forma financial statements of the continuing *Dealer Member* showing compliance with *IIROC requirements* relating to capital requirements.

2225. Amalgamation with a non-Dealer Member

(1) A *Dealer Member* may amalgamate with a non-*Dealer Member* if the continuing *Dealer Member* provides *IIROC* with:

(i) information, satisfactory to *IIROC*, confirming that the continuing *Dealer Member* will have policies and procedures sufficient to carry on its business and comply with *IIROC requirements*, and

(ii) pro forma financial statements of the continuing *Dealer Member* showing compliance with *IIROC requirements* relating to capital requirements.

2226. Effective date of resignation

(1) Resignation of a *Dealer Member* is effective on the date following the day on which the following conditions have all been satisfied:

(i) *IIROC* has received the documents required to support the resignation,

(ii) *IIROC* has received payment of any amount owed to *IIROC*,

(iii) *IIROC* has confirmed that no complaints or disciplinary actions are outstanding that *IIROC*, in its sole discretion, determines must be resolved prior to permitting the *Dealer Member* to

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resign, and

(iv) the *Board* has approved the *Dealer Member's* resignation.

(2) Notwithstanding the above, and without limiting the discretion that the *Board* may have to exempt a *Dealer Member* from any *IIROC requirement*, where circumstances warrant, the *Board* may exercise discretion to postpone the effective date of a *Dealer Member's* resignation.

(3) *IIROC* will issue a notice within one week of the effective date of a *Dealer Member's* resignation advising of the effective date of the *Dealer Member's* resignation.

2227. Payment of IIROC fees

(1) A resigning, suspended, terminated or surrendering *Dealer Member* must make full payment of its annual membership fees for the entire fiscal year in which its resignation, suspension, termination or surrender becomes effective, subject to the exception set out in subsection 2227(2).

(2) A resigning, suspended or terminated *Dealer Member* may make payment of its membership fees until the end of the fiscal quarter in which the following conditions have been met:

(i) the *Dealer Member* has transferred all customer accounts to another *Dealer Member,*

(ii) the *Dealer Member* has no remaining *Approved Persons* other than shareholders, the *Ultimate Designated Person*, the *Chief Compliance Officer* and the *Chief Financial Officer*, and

(iii) in the case of a resigning *Dealer Member*, the *Dealer Member* has provided written notice of its resignation to *IIROC.*

2228. Inactive Dealer Members

(1) A *Dealer Member* may apply to the *Board* to have its *membership* status temporarily changed to inactive. *Dealer Members* must file their applications in writing and must include reasons for the requested change.

(2) The *Board* must impose a time limit and may impose conditions on a *Dealer Member's* inactive status.

(3) When a *Dealer Member's* status changes to inactive, *IIROC* must publish a notice indicating so.

(4) A *Dealer Member* with inactive status may apply in writing to the *Board* for an extension to the time period of its inactive status if:

(i) the written application is made at least 30 days before the *Dealer Member's* inactive status expires, and

(ii) the inactive status period has not been extended previously.

(5) When a *Dealer Member's* inactive status or the extension to the period of time established by the *Board* for inactive status expires, the *Dealer Member's* status will automatically revert to that of a *Dealer Member*.

2229. – 2244. Reserved.

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Part C - BUSINESS CHANGE NOTIFICATION REQUIREMENTS

2245. Introduction

(1) *IIROC* may review the changes in a *Dealer Member's* business, listed in section 2246, to ensure they meet *IIROC's requirements*.

2246. Dealer Member's notice of changes to IIROC

(1) A *Dealer Member* must notify *IIROC* in writing a minimum of 20 days before:

(i) changing its name,

(ii) changing its constitution in a way that affects voting rights,

(iii) taking any steps to dissolve, wind up, surrender its charter, liquidate or dispose of all or substantially all its assets, or

(iv) altering its capital structure including, allotting, issuing, repurchasing, redeeming, canceling, subdividing or consolidating of any shares in its capital.

(2) A *Dealer Member* must notify *IIROC* in writing before any material change to its business activities.

2247. IIROC informs Dealer Member about review when necessary

(1) A *Dealer Member* must not make any of the changes listed in section 2246 if, within the 20 day notice period, *IIROC* informs the *Dealer Member* that it will be submitting the proposed change to the *applicable District Council* for approval.

2248. District Council reviews proposed changes

(1) The *District Council* will review any proposed change *IIROC* submits to it under section 2247 and either:

(i) approve the proposed change,

(ii) approve the proposed change with conditions, or

(iii) refuse it, if it considers the change would result in the *Dealer Member* being unable to comply with *IIROC's requirements*.

2249. – 2264. Reserved.

Part D - BRANCH OFFICES OF DEALER MEMBERS

2265. Introduction

(1) Part D of Rule 2200 describes how *Dealer Member*s' branch offices participate in *IIROC* and its *Districts*.

2266. Branch office members

(1) Every *Dealer Member's business location* in a *District* with a *Supervisor,* who is normally present at the *business location,* is a branch office member of the *District*.

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2267. Branch office member's representation

(1) A branch office member may participate in governing the *District* in which the branch office is located, as follows:

(i) it has the same privileges in its *District* as any other branch office member, except that at a *District* meeting, a *Dealer Member* only has one vote in the *District*, no matter how many branch office members it has, and

(ii) its *District* representative is eligible for election as chair, vice-chair or member of the *District Council* for that *District*.

2268. Fees

(1) A *Dealer Member* does not have to pay an annual fee or entrance fee for its branch office members.

2269. – 2279. Reserved.

Part E - TRADE NAMES AND DISCLOSURES

2280. Introduction

(1) Part E of Rule 2200 covers a *Dealer Member's* use of trade names, *IIROC Membership* disclosure and *Canadian Investor Protection Fund* membership disclosure.

2281. Trade names

(1) In Part E of Rule 2200, the term "trade name" means a name a *Dealer Member* or *Approved Person* uses to conduct business and includes a group name under which a *Dealer Member* and its *affiliates* conduct business.

(2) If a *Dealer Member* carries on business under a *trade name*, the *trade name* must be owned by the *Dealer Member*, an *Approved Person* of the *Dealer Member* or an *affiliate* of the *Dealer Member*.

(3) An *Approved Person* must not conduct any business under a *trade name* that is not owned by the *Dealer Member* or its *affiliate* without the *Dealer Member's* prior consent.

(4) A *Dealer Member* or *Approved Person* must not use a *trade name* that any other *Dealer Member* uses unless:

(i) the *Dealer Member*s are *related companies* or *affiliate* companies, or

(ii) the relationship with the other *Dealer Member* is that of *introducing broker* and *carrying broker*.

(5) A *Dealer Member* or *Approved Person* must not use a deceptive or misleading *trade name*.

2282. IIROC notification

(1) A *Dealer Member* must notify *IIROC* before it:

(i) uses any *trade name* other than the *Dealer Member's* legal name, or

(ii) transfers a *trade name* to another *Dealer Member*.

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(2) *IIROC* may prohibit a *Dealer Member* or *Approved Person* from using a *trade name* that is:

(i) contrary to sections 2281, 2282 or2283,

(ii) contrary to the public interest, or

(iii) otherwise objectionable.

2283. Displaying the full legal name

(1) A *Dealer Member* must include its full legal name on all contracts and materials used to communicate with the public, whether or not it uses a *trade name*.

(2) An *Approved Person* that uses a *trade name* different from that of the *Dealer Member* on materials used to communicate with the public must also include the *Dealer Member's* full legal name in size at least equal to that of the *Approved Persons' trade name*.

(3) Materials used to communicate with the public include, but are not limited to the following: letterhead, business cards, invoices, trade confirmations, monthly statements, websites, *research reports* and *advertisements*.

2284. Membership disclosure requirements of the Canadian Investor Protection Fund for Dealer Members

(1) A *Dealer Member* must disclose to its clients, in accordance with the *CIPF Disclosure Policy*, membership in the *Canadian Investor Protection Fund* and the coverage available for eligible accounts.

2285. Membership disclosure requirements of IIROC for Dealer Members

(1) A *Dealer Member* must disclose to its clients that it is regulated by *IIROC* in accordance with the requirements set out in the *IIROC Membership Disclosure Policy*.

2286. –2299. Reserved.

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RULE 2300

PRINCIPAL AND AGENT RELATIONSHIPS

2301. Introduction

(1) Rule 2300 describes the requirements of relationships between *Dealer Members* and their *agents*.

2302. Principal and agent relationships

(1) An *individual* who conducts *securities related business* on behalf of a *Dealer Member* must be an *employee* (which includes an *agent*) of the *Dealer Member*.

(2) A *Dealer Member* must not allow a corporation or other non-*individual* entity to conduct *securities related business* on its behalf.

2303. Written agreement between the Dealer Member and IIROC

(1) Before engaging any *agent*s to conduct *securities related business*, a *Dealer Member* must enter into a written agreement with *IIROC*.

(2) The written agreement must contain terms describing the *Dealer Member's* responsibility:

(i) for the *agent's* conduct, including the *agent's* compliance with *IIROC requirements* and *securities laws*, and

(ii) to clients for the *agent's* acts and omissions relating to the *Dealer Member's* business.

(3) *IIROC* must be satisfied with the form of the written agreement.

(4) The written agreement must be in a form similar to the following:

"Agreement between a Dealer Member and IIROC

1. Recitals

(i) As a Dealer Member of the Investment Industry Regulatory Organization of Canada (**IIROC)**, the Dealer Member agrees it is subject to IIROC requirements.

(ii) Section 2303 of the IIROC Rules "Written agreement between the Dealer Member and IIROC" requires the Dealer Member to make this agreement with IIROC.

(iii) This agreement is in addition to and does not alter IIROC requirements or any other agreement between the Dealer Member and IIROC.

2. Agreement with the Agent

(i) The Dealer Member must enter into a written agreement with each of its agents as required by section 2304 of the IIROC Rules "Written agreement between the Dealer Member and its agents" and any successor rules relating to principal and agent relationships.

(ii) The agreement must require that the agent complies with all applicable laws and IIROC requirements.

3. Supervision of the Agent

The Dealer Member must treat each of its agents as employees with respect to:

(i) administration of IIROC requirements,

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(ii) supervision of the agent under IIROC requirements, and

(iii) ensuring its agents comply with all applicable laws and IIROC requirements.

4. Written Disclosure of Respective Responsibilities to Clients

The Dealer Member or the agent must disclose to clients at the time of opening an account:

(i) the list of *securities related business* activities conducted by the agent for which the Dealer Member is responsible, and

(ii) that the Dealer Member is not responsible for any other business activity conducted by the agent.

5. Disclosure to Clients

The disclosure to clients must be made using the following language in the New Account Application:

> "If your investment advisor is an agent of [the Dealer Member name], [Dealer Member name] is irrevocably liable to you for any acts and omissions of your investment advisor with regard to [Dealer Member name] business as if the investment advisor were an employee of [Dealer Member name]. By continuing to deal with our firm, you accept our offer of indemnity."

6. Disclosure by Agent

If the disclosure is made by the agent, the Dealer Member must ensure that the agent has made the disclosure directly to the clients.

7. Regulatory Authority of IIROC

The Dealer Member acknowledges that IIROC has the authority to regulate and enforce the provisions set out in the Dealer Member and agent agreement.

8. Governing Laws

This agreement is governed by the laws of [applicable province] and the laws of Canada.

9. Continuing Benefit

The agreement is for the benefit of and binding upon the parties and their successors and assigns. The Dealer Member may not assign the agreement without IIROC's prior written consent.

DATED as of the _____day of _____, _____

[DEALER MEMBER]

_____

[NAME AND TITLE OF SIGNING INDIVIDUAL]

_____"

2304. Written agreement between the Dealer Member and its agents

(1) The *Dealer Member* and the *agent* who conducts *securities related business* must enter into a written agreement.

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(2) The written agreement must not contain any terms inconsistent with *IIROC requirements* or *securities laws*.

(3) *IIROC* must be satisfied with the form of the written agreement before the *Dealer Member* finalizes the agreement with the *agent*.

(4) The *Dealer Member* must certify to *IIROC* that the written agreement complies with Rule 2300 and any other applicable *IIROC requirements*.

(5) *IIROC* may request that the *Dealer Member* obtain a legal opinion confirming subsection 2304(4).

(6) *IIROC* must be satisfied that the written agreement complies with *applicable laws* relating to tax matters.

(7) The written agreement must contain the following minimum terms:

(i) Compliance with the *applicable laws*

The *agent* and the *Dealer Member* confirm that this agreement does not violate *applicable laws*.

(ii) Confirmation of supremacy of *IIROC requirements*

The *agent* and the *Dealer Member* confirm that:

(a) this agreement is made in compliance with *IIROC requirements*,

(b) if there is an inconsistency between this agreement and any applicable *IIROC requirements*, the *IIROC requirements* will prevail,

(c) any inconsistent terms will be deemed severed and deleted,

(d) *IIROC* has the authority to regulate and enforce the provisions set out in this agreement, and

(e) this agreement will be interpreted and enforced to give full effect to any applicable *IIROC requirements*.

(iii) Compliance by the *agent* with *applicable laws*, *securities laws*, and *IIROC requirements*

(a) The *agent* warrants to the *Dealer Member* that it is appropriately registered or licensed, in good standing and in compliance with all *applicable laws*, *securities laws*, and *IIROC requirements*.

(b) The *agent* covenants to comply with all *applicable laws*, *securities laws*, and *IIROC requirements*.

(c) The *agent* agrees to be bound by and comply with the warranties and covenants above throughout the term of the agreement.

(iv) Conduct of the *agent's* business

(a) The *agent* agrees to conduct all business in the *Dealer Member's* name, subject to sections 2281 through 2283 relating to the use of trade names.

(b) The *agent* agrees to conduct all *securities related business* activities through the *Dealer Member*.

(v) Supervision of the *agent* by the *Dealer Member*

The *Dealer Member* agrees to be:

(a) responsible for the supervision of the *agent's* conduct to provide reasonable

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assurance of the agent's compliance with *IIROC requirements* and the requirements of any other *securities regulatory authority* to which the *Dealer Member* is subject, and (b) liable to clients (and other third parties) for the *agent's* conduct as if he or she were an *employee*. (vi) Written disclosure to clients If the *Dealer Member* and the *agent* have agreed that the *agent* will advise the clients directly: (a) the list of *securities related business* activities conducted by the *agent* for which the *Dealer Member* is responsible, and (b) that the *Dealer Member* is not responsible for any other business activity conducted by the *agent*, the *Dealer Member* agrees to be responsible for ensuring that the *agent* has done so. (vii) *Dealer Member* assumes responsibility for clients (a) In the event that: (I) *IIROC* or another *securities regulatory authority* has advised the *Dealer Member* that it has started an investigation relating to allegations of misconduct by the *agent*, or (II) the *Dealer Member* has reasonable grounds to believe that the *agent* has contravened or may be contravening one or more *IIROC requirements* or *securities laws*, the *Dealer Member* may immediately and without notice to the *agent*, assume responsibility for the client to the exclusion of the *agent*. (b) The *agent* may not have any dealings or communications with the client as long as the *Dealer Member* has assumed this responsibility. (c) The *Dealer Member* may designate another qualified *person* to provide services to the client, and that *person* may receive any *remuneration* that would have been paid to the *agent*. (viii) Outside business activities (a) The *agent* agrees not to conduct any outside business activity without disclosing to and obtaining the written consent of the *Dealer Member*. (b) If the *agent* is involved in an outside business activity, the *Dealer Member* agrees to monitor and enforce compliance with the terms of this agreement directly and not through another employer or principal of the *agent*. (c) The *agent* agrees to ensure that the outside business activity will not interfere with the *Dealer Member* or *IIROC* monitoring and enforcing compliance by the *agent* with this agreement or *IIROC requirements*. (ix) Access to premises The *agent* agrees to give the *Dealer Member* unrestricted access to the premises where the *agent* conducts *securities related business* on the *Dealer Member's* behalf. (x) Records

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	The *agent* agrees that the books and *records* kept by the *agent* for the *Dealer Member's* business: (a) will conform to *IIROC requirements*, (b) are the *Dealer Member*'s property, (c) are available at all times for review by and delivery to the *Dealer Member*, and (d) shall be delivered to the *Dealer Member* on termination of the agreement.
(xi)	Insurance The *Dealer Member* agrees to maintain financial institution bond and insurance policies that cover the *agent's* conduct relating to the *securities related business* activities they conduct for the *Dealer Member*.
(xii)	Assignment of agreement The *agent* acknowledges that the *Dealer Member* has the right to assign to *IIROC* any or all of the *Dealer Member's* rights to enforce the terms of this agreement that relate to *IIROC requirements*.
2305. –2399. Reserved.	

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RULE 2400

ACCEPTABLE BACK OFFICE ARRANGEMENTS

2401. Introduction

(1) In order to manage back office expenses, *Dealer Member*s may enter into arrangements that involve back office service sharing with another organization. Services shared may include any combination of: trade execution, trade clearing and settlement, trade financing, trade related cash and security custody and trade related books and *records*. In some cases, before an arrangement can commence, the parties must agree to specific *IIROC* arrangement conditions, including obtaining *IIROC* approval of the arrangement.

(2) Sections 2401 through 2480 sets out the specific *IIROC requirements* for a number of arrangements that a *Dealer Member* may enter into and is organized as follows:

Part A – Requirements for acceptable arrangements between two *Dealer Member*s including:

Part A.1 – General requirements
[sections 2403 through 2407]

Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements
[section 2410]

Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements
[section 2415]

Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements
[section 2420]

Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements
[section 2425]

Part B – Requirements for acceptable arrangement between a *Dealer Member* and a foreign *affiliate* dealer
[sections 2435 and 2436]

Part C – Permitted arrangements that are not considered to be introducing broker / carrying broker arrangements
[sections 2460 and 2461]

Part D – Prohibited arrangements
[section 2480]

2402. Definitions

(1) The following terms have the meaning set out below when used in sections 2402 through 2480:

"clearing arrangement"	An arrangement entered into between two dealers under which all of the following services are provided by one dealer ("clearing broker") to the other dealer for one or more lines of business: (i) trade execution, (ii) trade settlement, and (iii) client account bookkeeping. Trade financing or account financing, custody of client cash and custody of client security positions services must not be provided as part of this arrangement.
"introducing broker / carrying broker arrangement"	An arrangement entered into between two dealers under which all of the following services are provided by one dealer, the *carrying broker*, to the other dealer, the *introducing broker*, for one or more lines of business: (i) trade settlement, (ii) custody of client cash, (iii) custody of client security positions, and (iv) client account bookkeeping. Trade execution and trade financing or account financing services may or may not be provided as part of this arrangement.

Part A - ARRANGEMENTS BETWEEN TWO DEALER MEMBERS – GENERAL REQUIREMENTS

Part A.1 – General requirements

2403. Arrangements that may be executed

(1) A *Dealer Member* that wants to become an *introducing broker* may enter into one of the following *introducing broker* / *carrying broker arrangements* with another *Dealer Member*:

(i) a Type 1 or 2 *introducing broker/carrying broker arrangement* for all of its *Dealer Member related activities*,

(ii) a Type 1 or 2 *introducing broker/carrying broker arrangement* for all of its *Dealer Member related activities* other than trading in *futures contracts* and *futures contract options*, or

(iii) a Type 3 or 4 *introducing broker/carrying broker arrangement* for one or more of its *Dealer Member related activities* business lines.

2404. Additional conditions that apply to an introducing broker under a Type 1 introducing broker/carrying broker arrangement

(1) A *Dealer Member* that is an *introducing broker* under a Type 1 *introducing broker/carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any additional *introducing broker* / *carrying broker arrangements* with

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another *Dealer Member* unless the arrangement is a Type 1 *introducing broker/carrying broker arrangement* or Type 2 *introducing broker/carrying broker arrangement* that provides back office services exclusive to trading in *futures contracts* and *futures contract options*,

(ii) must not continue to self-clear any part of its *Dealer Member related activities* other than self-clearing trading in *futures contracts* and *futures contracts options*, and

(iii) must use its *carrying broker's* facilities for its principal trading, settlement, and securities custody.

2405. Additional conditions that apply to an introducing broker under a Type 2 introducing broker/carrying broker arrangement

(1) A *Dealer Member* that is an *introducing broker* under a Type 2 *introducing broker/carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any additional *introducing broker* / *carrying broker arrangements* with another *Dealer Member* unless the arrangement is a Type 1 *introducing broker/carrying broker arrangement* or Type 2 *introducing broker/carrying broker arrangement* that provides back office services exclusive to trading in *futures contracts* and *futures contract options*,

(ii) must not self-clear any part of its *Dealer Member related activities* other than self-clearing trading in *futures contracts* and *futures contracts options*, and

(iii) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

2406. 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

(1) A *Dealer Member* that is an *introducing broker* under a Type 3 *introducing broker/carrying broker arrangement* or Type 4 *introducing broker/carrying broker arrangement* with another *Dealer Member*:

(i) must not enter into any Type 1 or Type 2 *introducing broker/carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,

(ii) may, where a business case can be made, enter into additional Type 3 *introducing broker/carrying broker arrangement* or Type 4 *introducing broker/carrying broker arrangements* for one or more of its remaining *Dealer Member related activities* business lines,

(iii) may self-clear one or more of its remaining *Dealer Member related activities* business lines, and

(iv) may use brokers other than its *carrying broker* for its principal trading, settlement, and securities custody.

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2407. Requirement for an agreement

(1) A *Dealer Member* may enter into an arrangement permitted within sections 2403 through 2406 with another *Dealer Member* if both parties enter into a written *introducing broker* / *carrying broker* contract:

(i) in a form acceptable to *IIROC*,

(ii) that specifies the type of arrangement being entered into as a Type 1, Type 2, Type 3 or Type 4 *introducing broker/carrying broker arrangement*,

(iii) whose terms comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and

(iv) which is approved by *IIROC* in advance of it coming into effect.

2408. – 2409. Reserved.

Part A.2 – Specific requirements for Type 1 introducing broker / carrying broker arrangements

2410. Type 1 introducing broker/carrying broker arrangement – requirements

The parties to a Type 1 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $75,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2410(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

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(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2410(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2410(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *IIROC requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *IIROC requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum

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Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account, the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*,

and

(b) obtain from the client an *IIROC* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2410(13)(i)(a).

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) To ensure ongoing disclosure of the *introducing broker* / *carrying broker* relationship to clients, the *introducing broker* and *carrying broker* 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 *introducing broker* / *carrying broker* relationship is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *IIROC requirements*.

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(17) Compliance with non-financial requirements

(i) The *introducing broker* and the *carrying broker* are jointly and severally responsible for compliance with all non-financial *IIROC requirements* for each account the *introducing broker* introduces to the *carrying broker* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) With the *carrying broker's* advance approval, the *introducing broker* may accept a cheque in the *carrying broker's* name from a client whose account is carried by the *carrying broker* and:

(a) deliver it to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*, or

(b) arrange for the *carrying broker* to pick it up on the day it is received by the *introducing broker* or the next *business day*.

(iii) A client may send a cheque directly to the *carrying broker*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2411. – 2414. Reserved.

Part A.3 – Specific requirements for Type 2 introducing broker / carrying broker arrangements

2415. Type 2 introducing broker/carrying broker arrangement – requirements

The parties to a Type 2 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin for principal business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin:

(a) for client business it carries for the *introducing broker*, and

(b) for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

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(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2415(3) by the least of the following amounts:

(a) the margin requirement,

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*, and

(c) the *introducing broker's* excess *risk adjusted capital*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *carrying broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced by the *introducing broker*. The *introducing broker* must not report these accounts.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report:

(I) any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2415(4), and

(II) any portion of a deposit that is impaired in value because the *carrying broker* carries client accounts with unsecured debit balances,

and,

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2415(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *carrying broker* must include, and the *introducing broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *IIROC requirements* relating to *segregation*.

(10) Free credit segregation

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(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *IIROC requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4458, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must:

(a) advise the client of:

(I) its relationship to the *carrying broker*, and

(II) the client's relationship to the *carrying broker*, and

(b) obtain from the client an *IIROC* approved form acknowledging it has provided the client with the disclosure required by sub-clause 2415(13)(i)(a).

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* must both show their names and roles on all

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client account contracts, statements, correspondence and other documents. Because of this ongoing disclosure, annual disclosure of the *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2415(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *IIROC requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *IIROC requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* must not accept or handle client funds in the form of money.

(ii) The *introducing broker* may accept a cheque from a client in the name of the *introducing broker* or *carrying broker,* provided that the cheque is deposited into a bank account in the *carrying broker's* name or forwarded on to the *carrying broker* on the day it is received by the *introducing broker* or the next *business day*.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2416. – 2419. Reserved.

Part A.4 – Specific requirements for Type 3 introducing broker / carrying broker arrangements

2420. Type 3 introducing broker/carrying arrangement – requirements

The parties to a Type 3 *introducing broker* / *carrying broker arrangement* must comply with the following

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requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2420(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and Monthly Financial Report all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and Monthly Financial Report one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *carrying broker* must meet financing requirements for client accounts introduced by the *introducing broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

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(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2420(4), and

(b) report as an allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any remaining deposits not classified as a non-allowable asset under sub-clause 2420(7)(ii)(a).

(8) Concentration calculations

(i) When completing the concentration calculations in Schedules 9 and 12 of Form 1, the *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *IIROC requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *carrying broker* must segregate free credits for client accounts introduced by the *introducing broker* in accordance with *IIROC requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457 and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

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(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* must both be parties to any margin agreements and *guarantee* documents.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* 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 *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents, and

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outline the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying broker* is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2420(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *IIROC requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *IIROC requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

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(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2421. – 2424. Reserved.

Part A.5 – Specific requirements for Type 4 introducing broker / carrying broker arrangements

2425. Type 4 introducing broker/carrying broker arrangement – requirements

The parties to a Type 4 *introducing broker* / *carrying broker arrangement* must comply with the following requirements:

(1) Minimum capital requirement

(i) The *introducing broker* must maintain at all times minimum capital of $250,000 for the purposes of calculating *risk adjusted capital*.

(2) Margin requirements to be provided by the *introducing broker*

(i) The *introducing broker* must maintain the required margin:

(a) for principal business it introduces to the *carrying broker*, and

(b) for client business it introduces to the *carrying broker*.

(3) Margin requirements to be provided by the *carrying broker*

(i) The *carrying broker* must maintain the required margin for any settlement date equity deficiency amounts relating to the principal business it carries for the *introducing broker* in accordance with the margin requirements for an account with another *regulated entity*, as set out in Note 4 of the Notes and Instructions to Schedule 5 of Form 1.

(4) Offsets of *carrying broker* margin requirements against deposits

(i) The *carrying broker* may reduce any margin it is required to provide under subsection 2425(3) by the lesser of the following amounts:

(a) the margin requirement, and

(b) the loan value of any *introducing broker* deposits held by the *carrying broker*.

Where a reduction is taken, the *carrying broker* must promptly notify the *introducing broker*.

(5) Reporting client balances

(i) When calculating *risk adjusted capital*, the *introducing broker* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report all client accounts introduced to the *carrying broker*. The *carrying broker* must not report those accounts.

(ii) The *carrying broker* must report on its Form 1 and Monthly Financial Report one balance owing to or from the *introducing broker*, representing client accounts it carries for the *introducing broker*.

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(iii) Although the *carrying broker* reports just one balance, its obligations and liabilities to each client whose account it carries for the *introducing broker* are not released, discharged, limited, or otherwise affected.

(6) Net client balances / funding

(i) The *introducing broker* must meet financing requirements for client accounts it introduces to the *carrying broker*.

(7) Deposits provided to the *carrying broker* by the *introducing broker*

(i) The *carrying broker* must:

(a) segregate security deposits provided by the *introducing broker*,

(b) hold cash deposits in a separate bank account in trust for the *introducing broker*, and

(c) report all deposits it receives from the *introducing broker* as a liability on its Form 1 and Monthly Financial Report.

(ii) The *introducing broker* must:

(a) report as a non-allowable asset on the *introducing broker's* Form 1 and Monthly Financial Report any portion of a deposit that a *carrying broker* has used to offset its margin requirements under subsection 2425(4), and

(b) report as an allowable asset on the *introducing broker's* 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 *introducing broker* must include, and the *carrying broker* must not include, all client positions the *carrying broker* maintains for the *introducing broker*.

(9) Segregating client securities

(i) The *carrying broker* must segregate securities for clients introduced by the *introducing broker* in accordance with *IIROC requirements* relating to *segregation*.

(10) Free credit segregation

(i) The *introducing broker* must segregate free credits for client accounts it introduces to the *carrying broker* in accordance with *IIROC requirements* including, but not limited to, Statement D of Form 1.

(11) Insurance coverage requirements of the *introducing broker*

(i) The *introducing broker* must:

(a) include all accounts introduced to the *carrying broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

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(c) maintain adequate insurance for registered mail specified under section 4455.

(12) Insurance coverage requirements of the *carrying broker*

(i) The *carrying broker* must:

(a) include all accounts it carries for the *introducing broker*:

(I) when calculating client net equity for the purposes of determining minimum Financial Institution Bond insurance coverage levels under section 4457, and

(II) when determining adequate insurance coverage levels for registered mail under section 4455,

(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

(c) maintain adequate insurance for registered mail specified under section 4455.

(13) Client account opening required disclosure

(i) At the time of opening a client account the *introducing broker* must advise the client of:

(a) its relationship to the *carrying broker*, and

(b) the client's relationship to the *carrying broker*.

(14) Parties to margin and *guarantee* documents

(i) The *introducing broker* and the *carrying broker* or the *introducing broker* itself, may be party to a margin agreement and *guarantee* document.

(ii) If a margin or *guarantee* agreement is only between the *introducing broker* and a client, then the *introducing broker* / *carrying broker* agreement must provide that the *carrying broker* may protect its interest in unpaid securities of the *introducing broker* when the *introducing broker* becomes insolvent, bankrupt, or ceases to be a *Dealer Member*.

(15) Disclosure on contracts, statements and correspondence

(i) The *introducing broker* must provide either ongoing or annual disclosure of its *introducing broker* / *carrying broker* relationship to clients as follows:

(a) where the *introducing broker* elects to provide ongoing relationship disclosure, the *introducing broker* and *carrying broker* 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 *introducing broker* / *carrying broker* relationship is not required, or

(b) where the *introducing broker* elects to provide annual relationship disclosure:

(I) the *introducing broker* must show its name on all client account contracts, statements, correspondence and other documents,

(II) the *introducing broker* must provide an annual written disclosure to each of its clients whose accounts are carried by a *carrying broker* outlining the relationship between:

(A) the *introducing broker* and the *carrying broker*, and

(B) the client and the *carrying broker*.

However, if the name and role of each of the *introducing broker* and the *carrying*

broker is shown on all contracts, statements, correspondence and other documents, the annual disclosure under paragraph 2425(15)(i)(b)(II) is not required.

(16) Clients introduced to the *carrying broker*

(i) A client introduced to the *carrying broker* by the *introducing broker* must be considered a client of both the *introducing broker* and the *carrying broker* for the purposes of compliance with *IIROC requirements*.

(17) Compliance with non-financial requirements

(i) For each account it introduces to the *carrying broker*, the *introducing broker* is responsible for compliance with all non-financial *IIROC requirements* unless stated otherwise in this section.

(18) Handling client cash

(i) The *introducing broker* may accept or handle client funds in the form of money.

(ii) An *introducing broker* may facilitate transactions for a client account carried by a *carrying broker* by accepting client cheques:

(a) in the *introducing broker's* name, and depositing those cheques in a bank account in the *introducing broker's* name for eventual deposit to an account in the *carrying broker's* name, or

(b) in the *carrying broker's* name for deposit directly into a bank account in the *carrying broker's* name.

(19) Reporting of *introducing broker* principal positions

(i) The *introducing broker* must report all its principal positions carried by a *carrying broker* as inventory on its Form 1 and Monthly Financial Report.

(ii) The *carrying broker* must report the balance of the principal trading account the *introducing broker* has with the *carrying broker* on its Form 1 and Monthly Financial Report.

2426. – 2434. Reserved.

Part B - ARRANGEMENTS BETWEEN A DEALER MEMBER AND A FOREIGN AFFILIATE DEALER

2435. Arrangements that may be executed with a foreign affiliate

(1) A *Dealer Member* may carry the client accounts of its foreign *affiliate* dealer if:

(i) the *Dealer Member* enters into an *introducing broker* / *carrying broker* agreement type that is permissible pursuant to sections 2403 through 2425 to be entered into between two *Dealer Member*s,

(ii) the *Dealer Member* complies with the applicable conditions and requirements that apply to *introducing broker* / *carrying broker* agreement type set out in sections 2403 through 2425, including the requirement to enter into a written agreement,

(iii) the written agreement is:

(a) in a form acceptable to *IIROC*,

(b) specifies the type of arrangement being entered into is a Type 1, Type 2, Type 3 or Type 4 *introducing broker/carrying broker* arrangement,

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(c) includes terms that comply with the requirements of sections 2401 through 2480 that apply to the type of arrangement being entered into, and

(d) approved by *IIROC* in advance of it coming into effect,

and,

(iv) the *Dealer Member* complies with the additional conditions set out in section 2436.

2436. Additional conditions that apply to an introducing broker / carrying broker arrangement involving a foreign affiliate dealer

The parties to an *introducing broker* / *carrying broker arrangement* between a *Dealer Member* and its foreign *affiliate* dealer must comply with the following conditions and requirements:

(1) Annual disclosure requirement

(i) The foreign *affiliate*, at least annually, must provide written disclosure in a form satisfactory to *IIROC*, to each of its clients whose accounts are carried by the *Dealer Member* outlining:

(a) the relationship between the *Dealer Member* and its foreign *affiliate*,

(b) the relationship between the *Dealer Member* and the foreign *affiliate's* client, and

(c) any *Canadian Investor Protection Fund* coverage limitations on those client accounts.

(2) Foreign jurisdiction approval

(i) The *Dealer Member* must provide written approval of the arrangement between the *Dealer Member* and its foreign *affiliate* from the foreign *affiliate*'s regulatory authority.

(3) Responsibility for compliance

(i) The *Dealer Member's* foreign *affiliate* is not required to comply with *IIROC requirements* solely because of the arrangement.

(4) Reporting balances

(i) When calculating *risk adjusted capital* the *Dealer Member* must report on Statement A and Schedule 4 of Form 1 and the Monthly Financial Report one balance owing to or from its foreign *affiliate* representing the accounts of the clients it carries on behalf of its foreign *affiliate*.

(5) Segregating securities

(i) The *Dealer Member* must *segregate* securities it holds for its foreign *affiliate*'s clients in accordance with *IIROC requirements* relating to *segregation*.

(6) Insurance

(i) The *Dealer Member* must include all accounts introduced to it by its foreign *affiliate* when calculating client net equity for minimum Financial Institution Bond coverage under section 4457 and 4458.

2437. – 2459. Reserved.

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Part C - 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 *Dealer Member's* arrangement under which employees of its *affiliate* handle securities clearing and settlement, maintain *records*, or perform operational functions is not considered an *introducing / carrying broker arrangement* for the purposes of sections 2401 through 2480 provided the custodial functions are handled on a segregated basis according to *IIROC requirements* and the *affiliate* is:

(i) a *chartered bank*,

(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 *Dealer Member's clearing arrangement* under which it acts as the clearing broker for another dealer is permitted and is not considered an *introducing broker* / *carrying broker arrangement* 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.

2462. – 2479. Reserved.

Part D - PROHIBITED BACK OFFICE SHARING ARRANGEMENTS

2480. Prohibited introducing broker / carrying broker arrangements

(1) A *Dealer Member* must not enter into an *introducing broker* / *carrying broker arrangement* with any *person* except with:

(i) another *Dealer Member*, in accordance with the requirements in sections 2403 through 2425, or

(ii) a foreign *affiliate* dealer, in accordance with the requirements in sections 2435 and 2436.

2481. – 2499. Reserved.

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RULE 2500

DEALER MEMBER DIRECTORS AND EXECUTIVES, AND APPROVAL OF INDIVIDUALS

2501. Introduction

(1) Rule 2500 sets out requirements for a *Dealer Member's Directors* and *Executives* including, its *Chief Financial Officer, Chief Compliance Officer,* and *Ultimate Designated Person.*

(2) Rule 2500 is divided into the following parts:

Part A – Dealer Member Directors and Executives

[sections 2502 through 2507]

Part B – Approval of individuals

[sections 2550 through 2555]

Part A - DEALER MEMBER DIRECTORS AND EXECUTIVES

2502. General requirements for Directors

(1) No *individual* may become a member of the board of directors of a *Dealer Member* unless that *individual* has been approved as a *Director* by *IIROC*.

(2) At least 40% of the *Dealer Member's Directors* must:

(i) either:

(a) be *actively engaged in the business of the Dealer Member* and spend the majority of their time in the securities industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

(b) occupy a position equivalent to an *Executive* or a *Director* at a related or *affiliated* firm registered with a *securities regulatory authority*, an *affiliated* foreign securities dealer or advisor, or an *affiliated* Canadian financial institution,

(ii) satisfy the applicable proficiency requirements of clause 2602(3)(xxviii), and

(iii) have at least five years' experience in the financial services industry, or such lessor period as may be acceptable to *IIROC*.

(3) The remaining *Directors* who do not meet subsection 2502(2) must, if *actively engaged in the business of the Dealer Member* or its *related company*, meet the requirements of sub-clause 2502(2)(i)(b) and clause 2502(2)(ii).

2503. General requirements for Executives

(1) A *Dealer Member's Executives* must:

(i) be either:

(a) *actively engaged in the business of the Dealer Member* and spend the majority of their time in the securities industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

(b) occupy a position equivalent to an *Executive* or *Director* at a related or *affiliated* firm registered with a *securities regulatory authority*, *affiliated* foreign securities dealer or

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advisor, or an *affiliated* Canadian financial institution, and

(ii) satisfy the applicable proficiency requirements of clause 2602(3)(xxvii).

(2) At least 60% of the *Dealer Member's Executives* must have at least five years of experience in the financial services industry, or such lessor period as may be acceptable to *IIROC*.

2504. Exemption

(1) The *applicable District Council* may grant an exemption from any requirement or part of a requirement in sections 2502 or 2503 if it is satisfied that it would not harm the interests of the *Dealer Member*, its clients, the public or *IIROC*. The exemption may be on any terms and conditions that the *applicable District Council* believes are necessary.

2505. Chief Financial Officer

(1) A *Dealer Member* must designate a *Chief Financial Officer* who must:

(i) be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503, and

(ii) satisfy the applicable proficiency and experience requirements set out in clause 2602(3)(xxix).

(2) The *Chief Financial Officer* need not be *actively engaged in the business of the Dealer Member* on a full-time basis if appropriate for the *Dealer Member's* business.

(3) When a *Chief Financial Officer* ceases to be approved in the applicable category, the *Dealer Member* must either immediately:

(i) designate a qualified *individual* as *Chief Financial Officer,* or

(ii) with *IIROC's* prior approval, designate an *Executive* as acting *Chief Financial Officer*.

(4) When an acting *Chief Financial Officer* is designated:

(i) that *individual* must satisfy the applicable proficiency requirements of clause 2602(3)(xxix) and be designated as *Chief Financial Officer*, or

(ii) the *Dealer Member* must designate another qualified *individual* as *Chief Financial Officer*,

within 90 days of the previous *Chief Financial Officer's* cessation date.

(5) Any *Dealer Member* that fails to have a qualified *Chief Financial Officer* within 90 days of the cessation date of the previous *Chief Financial Officer*, or such other dates as *IIROC* may specify, will be liable for and pay to *IIROC* such fees as the *Board* may prescribe from time to time.

2506. Chief Compliance Officer

(1) A *Dealer Member* must designate a *Chief Compliance Officer* who must:

(i) be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503, and

(ii) satisfy the applicable proficiency and experience requirements set out in clause 2602(3)(xxx).

(2) The *Chief Compliance Officer* may be the *Ultimate Designated Person,* if approved *by IIROC*.

(3) A *Dealer Member* may designate additional *Chief Compliance Officers* to be responsible for separate business units of the *Dealer Member*, if the *Dealer Member* has obtained the prior

approval of *IIROC* and any other applicable *securities regulatory authority*.

(4) When a *Chief Compliance Officer* ceases to be approved in the applicable category, the *Dealer Member* must either immediately:

(i) designate a qualified *individual* as *Chief Compliance Officer*, or

(ii) with *IIROC's* prior approval, designate an *Executive* as acting *Chief Compliance Officer*.

(5) When an acting *Chief Compliance Officer* is designated:

(i) the *individual* must satisfy the applicable proficiency requirements of clause 2602(3)(xxx) and be designated as *Chief Compliance Officer*, or

(ii) the *Dealer Member* must designate another qualified *individual* as *Chief Compliance Officer*, within 90 days of the previous *Chief Compliance Officer's* cessation date.

(6) Any *Dealer Member* that fails to have a qualified *Chief Compliance Officer* within 90 days of the cessation date of the previous *Chief Compliance Officer*, or such other dates as *IIROC* may specify, will be liable for and pay to *IIROC* such fees as the *Board* may prescribe from time to time.

2507. Ultimate Designated Person

(1) A *Dealer Member* must designate an *Ultimate Designated Person* who must be designated as an *Executive* and meet the general requirements for *Executives* set out in section 2503.

(2) The *Ultimate Designated Person* must be:

(i) the chief executive officer of the *Dealer Member* or, if the *Dealer Member* does not have a chief executive officer, an *individual* acting in a capacity similar to a chief executive officer,

(ii) the sole proprietor of the *Dealer Member*, or

(iii) the *Executive* in charge of a division of the *Dealer Member*, if the activity that requires the *Dealer Member* to register occurs only within the division and the *Dealer Member* has significant other business activities.

(3) A *Dealer Member* may designate additional *Ultimate Designated Persons* to be responsible for separate business units, with the prior approval of *IIROC* and any other applicable *securities regulatory authority*.

(4) If an *individual* who is approved as a *Dealer Member's Ultimate Designated Person* ceases to meet any of the conditions listed in subsections 2507(1) and 2507(2), the *Dealer Member* must immediately designate another qualified *individual* to act as its *Ultimate Designated Person* or if unable to do so, promptly notify *IIROC* of its plan to designate another qualified *individual* as its *Ultimate Designated Person*.

2508. – 2549. Reserved.

Part B - APPROVAL OF INDIVIDUALS

2550. Introduction

(1) Part B of Rule 2500 sets out the approval criteria for *Approved Persons*.

(2) Part B of Rule 2500 requirements are complimentary to section 9204, which discuss *individual*

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approval applications.

2551. Individual approval

(1) An *individual* is not permitted to act as an *Approved Person* and a *Dealer Member* is not permitted to allow an *individual* to act as an *Approved Person* unless:

(i) the *Dealer Member* is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *Dealer Member* reside or in which the *Dealer Member* carries on *securities related business*,

(ii) the *individual,* if required to do so under *securities laws,* is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *individual* reside or in which the *individual* carries on *securities related business*, and

(iii) the *individual* is approved by *IIROC* in the appropriate *Approved Person* category, before the *individual* begins working in that role.

(2) Only a *Dealer Member's* director, partner, *officer* or *employee* can be an *Approved Person*.

(3) A *Dealer Member* must ensure that each *Approved Person* at the *Dealer Member* complies with *IIROC requirements* applicable to that *individual's Approved Person* category.

(4) All *Approved Persons* are subject to *IIROC* jurisdiction and must comply with *IIROC requirements*.

(5) A *Dealer Member* must ensure that, when dealing with the public, its *Approved Persons* use titles and designations that accurately indicate:

(i) the type of business that he or she has been approved by *IIROC* to conduct, and

(ii) the role that he or she carries out or has been approved by *IIROC* to carry out.

(6) If an *Approved Person* ceases to be approved by *IIROC*, the former *Approved Person* must immediately cease any activity requiring *IIROC* approval.

(7) An *Approved Person* must not accept, nor allow an *associate* to accept, directly or indirectly, any pay, wages, salary, fees, gratuity, advantage, benefit or other consideration from any *person* other than the *Dealer Member*, its *related companies*, or *affiliates* for any *Dealer Member related activities* carried out by the *Approved Person.*

2552. Compliance with the proficiency requirements or other conditions

(1) Each of the *Dealer Member's Approved Persons* must:

(i) meet the applicable proficiency requirements set out in Rule 2600 before *IIROC* approval is granted, and

(ii) complete the applicable post-approval course requirements of subsection 2602(3) after receiving *IIROC* approval.

(2) *IIROC* will automatically suspend an *Approved Person* if he or she does not complete all required post-approval courses in his or her *Approved Persons* category as set out in Rule 2600.

(3) *IIROC* will reinstate an *Approved Person* once he or she has passed the required post-approval courses and *IIROC* has been notified.

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(4) A *Dealer Member* must file a report specified by *IIROC* on the conditions imposed on an *Approved Person* under Rule 8200 or Rule 9200 within 10 *business days* of the end of each month.

(5) If a *Dealer Member* does not file the report specified in subsection 2552(4) or files the report late, it must pay *IIROC* the applicable late filing fee.

2553. Approval of Registered Representatives, Investment Representatives, Portfolio Managers and Associate Portfolio Managers and their obligations

(1) A *Portfolio Manager* and *Associate Portfolio Manager* is also permitted to conduct activities carried on by a *Registered Representative* in accordance with *IIROC requirements* applicable to *Registered Representatives*.

(2) A *Registered Representative*, *Investment Representative*, *Portfolio Manager* or *Associate Portfolio Manager* may not conduct on behalf of a *Dealer Member*, and a *Dealer Member* may not permit the *Approved Person* to conduct on its behalf, the type of business as set out in clause 2553(2)(iv) and deal with a type of customer as set out in clauses 2553(2)(i) and (ii), unless the *Dealer Member* complies with the following:

(i) The *Dealer Member* must notify *IIROC*, and seek *IIROC's* prior approval on whether the *Registered Representative*, *Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* will deal with either *retail clients* or *institutional clients*.

(ii) A *Registered Representative* dealing with:

(a) *retail clients,* may take orders from, or give advice to, all types of clients, or

(b) *institutional clients,* may take orders from, or give advice to, *institutional clients* only.

(iii) An *Investment Representative* dealing with:

(a) *retail clients,* may take orders from all types of clients, or

(b) *institutional clients,* may take orders from *institutional clients* only.

(iv) The *Dealer Member* must notify *IIROC* which of its *individual*s approved as a *Registered Representative, Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* will deal in or advise in:

(a) only mutual funds, government or government-guaranteed debt instruments, and deposit instruments issued by a federally regulated bank, trust company, credit union or caisse populaire, except those for which all or part of the interest or return is indexed to the performance of another financial instrument or index,

(b) *options*,

(c) *futures contracts* and *futures contract options*, other than in any province where approval is required, and

(d) general securities business; including equities, fixed income and other investment products not listed above.

(3) An *individual* applying for approval as a *Registered Representative* or *Investment Representative* dealing with mutual fund business only must comply with the proficiency requirements in clauses 2602(3)(vi) and (xii).

(4) A *Registered Representative* or *Investment Representative* approved to deal with mutual funds only

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must comply with the following:

(i) within 270 days of initial approval, successfully complete the Canadian Securities Course and the Conduct and Practices Handbook Course, and

(ii) complete the applicable training program required before approval for a *Registered Representative* in clause 2602(3)(i) or an *Investment Representative* in clause 2602(3)(vii) and the *Dealer Member* must notify *IIROC* that the restriction to mutual funds only has been removed.

(5) Clause 2553(4)(ii) does not apply to a *Registered Representative* or *Investment Representative* qualified to conduct mutual funds only who was approved prior to September 28, 2009 and registered in provinces or territories which allowed the *individual* to be restricted to mutual funds only, provided they remain in the same restricted category of approval in the same provinces/territories.

(6) The approval of an *individual* qualified to conduct only mutual fund business is automatically suspended if the *individual* fails to satisfy the requirement in subsection 2553(4) until the *individual* has satisfied the requirements and notifies *IIROC*.

(7) An *Associate Portfolio Manager* must not advise on securities unless, before giving the advice, the advice has been pre-approved by the *Portfolio Manager*.

2554. The Approved Person's activities outside of the Dealer Member

(1) An *Approved Person* may have, and continue in, a business or other activity outside of the *Dealer Member*, if the business or other activity:

(i) is not contrary to *securities laws* or *IIROC requirements,* and

(ii) does not bring the securities industry into disrepute.

(2) An *Approved Person* may have, and continue in, a business activity outside of the *Dealer Member*, if:

(i) the *Approved Person* informs the *Dealer Member* of the outside business activity,

(ii) the *Approved Person* obtains the *Dealer Member's* prior approval to engage in the outside business activity,

(iii) the *Dealer Member's* policies and procedures specifically address:

(a) continuous service to clients, and

(b) potential conflicts of interest,

and,

(iv) the *Dealer Member* notifies *IIROC* of the outside business activity within the time period and manner required by *IIROC requirements*.

(3) An *individual* must not act, and a *Dealer Member* must not permit an *individual* to act, as a *Registered Representative*, *Investment Representative*, *Portfolio Manager*, *Associate Portfolio Manager* or *Trader* in a manner that is contrary to section 4.1 of National Instrument 31-103, unless an exemption is granted by the applicable *securities regulatory authority* and such similar exemption request is also filed with and approved by *IIROC*.

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2555. Approval of investors

(1) Any investor who owns or holds a *beneficial ownership* interest in a *significant equity interest* in the *Dealer Member* or special warrants or other securities that are convertible into a *significant equity interest* in the *Dealer Member* must:

(i) be approved by the *applicable District Council*, and

(ii) if applicable, meet the proficiency requirements of subsections 2555(2) and 2555(3).

(2) A *Dealer Member's Director* who, directly or indirectly, owns or controls a voting interest of a *Dealer Member* of 10% or more must satisfy the proficiency requirements of clause 2602(3)(xxxi).

(3) Any *individual*, other than a *Dealer Member's Director,* who:

(i) is *actively engaged in the business of the Dealer Member*, and

(ii) directly or indirectly owns or controls a voting interest in a *Dealer Member* of 10% or more,

must satisfy the proficiency requirements of clause 2602(3)(xxxi) applicable to *approved investors*.

2556. – 2599. Reserved.

IIROC Rule

RULE 2600

PROFICIENCY REQUIREMENTS AND EXEMPTIONS FROM PROFICIENCIES

2601. Introduction

(1) Rule 2600 sets out the minimum proficiency requirements for *individuals* requiring *IIROC* approval. The requirements are designed to ensure that *Approved Persons* are qualified to perform their job functions competently in order to meet their regulatory obligations and that a *Dealer Member's* business is conducted with integrity.

(2) Rule 2600 is divided into the following parts:

Part A – Proficiency requirements

[section 2602]

Part B – Exemptions from proficiency requirements

[sections 2625 through 2630]

Part A - PROFICIENCY REQUIREMENTS

2602. Proficiency requirements for Approved Persons and approved investors

(1) An *Approved Person* must not perform an activity that requires approval unless the *Approved Person* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each security the *Approved Person* recommends.

(2) The *Dealer Member* must ensure that an *individual* does not perform an activity that requires *IIROC* approval unless the *individual* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each security the *individual* recommends.

(3) Each applicant in an *Approved Person* category or *approved investor* category must meet the proficiency requirements set out below for that category unless an exemption has been granted from the applicable proficiency requirements before *IIROC* will grant approval. Unless otherwise stated, the Canadian Securities Institute administers the courses and examinations noted below.

IIROC Rule	
	Registered Representatives and Investment Representatives
	• *Registered Representative* dealing with *retail clients* (other than *Registered Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
	• *Registered Representative* dealing with *institutional clients* (other than *Registered Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
	• *Registered Representative* dealing in *options* with *retail clients*
	• *Registered Representative* dealing in *options* with *institutional clients*
	• *Registered Representative* dealing in *futures contracts* and *futures contract options* with *retail* or *institutional clients*
	• *Registered Representative* dealing in mutual funds only
	• *Investment Representative* dealing with *retail clients* (other than *Investment Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
	• *Investment Representative* dealing with *institutional clients* (other than *Investment Representative* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)
	• *Investment Representative* dealing in *options* with *retail clients*
	• *Investment Representative* dealing in *options* with *institutional clients*
	• *Investment Representative* dealing in *futures contracts* or *futures contract options* with *retail* or *institutional clients*
	• *Investment Representative* dealing in mutual funds only
	Associate Portfolio Managers and Portfolio Managers
	• *Associate Portfolio Managers* providing discretionary portfolio management for *managed accounts*
	• *Portfolio Managers* providing discretionary portfolio management for *managed accounts*
	Traders
	• *Trader*
	• *Trader* on the Montréal Exchange
	Supervisors – Retail or Institutional
	• *Supervisor* of *Registered Representatives* or *Investment Representatives* (other than supervising *options* or *futures contracts* and *futures contract options*)

IIROC Rule		
	• *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *options*	
	• *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *futures contracts* and *futures contract options*	
	Designated Supervisors	
	• *Supervisor* designated to be responsible for the opening of new accounts and supervision of account activity	
	• *Supervisor* designated to be responsible for the supervision of *discretionary accounts*	
	• *Supervisor* designated to be responsible for the supervision of *managed accounts*	
	• *Supervisor* designated to be responsible for the supervision of *options* accounts	
	• *Supervisor* designated to be responsible for the supervision of *futures contract /futures contract options accounts*	
	• *Supervisor* designated to be responsible for the pre-approval of *advertising*, *sales literature* and *correspondence*	
	• *Supervisor* designated to be responsible for the supervision of *research reports*	
	Executives and Directors	
	• *Executive* (including *Ultimate Designated Person*)	
	• *Director*	
	• *Chief Financial Officer*	
	• *Chief Compliance Officer*	
	Approved investors	
	• *approved investor*	

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
Registered Representatives and Investment Representatives			
(i) *Registered Representative* dealing with *retail clients* (other than *Registered Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course or, Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course and • 90-day training program after completion of the Canadian Securities Course or CFA Program Level I or any higher level. The *Dealer Member* must employ the applicant full time during this program. OR New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval	• Wealth Management Essentials Course within 30 months after approval date as a *Registered Representative*	• Six months of supervision and supervisory reporting from initial approval date as a *Registered Representative*
(ii) *Registered Representative* dealing with *institutional clients* (other than *Registered*	• Canadian Securities Course or, Level I or any higher level of the CFA Program		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
Representatives dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	administered by the CFA Institute, and Conduct and Practices Handbook Course OR • New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval		
(iii) *Registered Representative* dealing in *options* with *retail clients*	• The proficiency requirements of a *Registered Representative* dealing with *retail clients* under clause 2602(3)(i), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(iv) *Registered Representative* dealing in *options* with *institutional clients*	• The proficiency requirements of a *Registered Representative* dealing with *institutional clients* under clause 2602(3) (ii), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(v) *Registered Representative* dealing with *retail clients* or *institutional clients* dealing in *futures contracts* or *futures contract options*	• Futures Licensing Course, and Conduct and Practices Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) , if previously registered with the National Futures Association in a similar		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	capacity and dealing in futures within three years before requesting approval		
(vi) *Registered Representative* dealing in mutual funds only	• Canadian Securities Course **or** Canadian Investment Funds Course administered by the Investment Funds Institute of Canada **or** Investment Funds in Canada Course	• Canadian Securities Course and Conduct and Practices Handbook Course within 270 days of initial approval, and • 90-day training program within 18 months of initial approval	• The *individual* must upgrade to *Registered Representative* within 18 months of initial approval
(vii) *Investment Representative* dealing with *retail clients* (other than *Investment Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course and 30-day training program after completing the Canadian Securities Course or Level I or any higher level		• Six months of supervision and supervisory reporting from initial approval date as an *Investment Representative*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	of the CFA Program. The *Dealer Member* must employ the applicant full-time during this program OR • New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval		
(viii) *Investment Representative* dealing with *institutional clients* (other than *Investment Representatives* dealing in *options*, *futures contracts* and *futures contract options* or dealing in mutual funds only)	• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course OR New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* in a similar capacity within three years before requesting approval		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
(ix) *Investment Representative* dealing in *options* with *retail clients*	• The proficiency requirements of an *Investment Representative* dealing with *retail clients* under clause 2602(3)(vii), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course, **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(x) *Investment Representative* dealing in *options* with	• The proficiency requirements for an		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
institutional clients	*Investment Representative* dealing with *institutional clients* under clause 2602(3)(viii), AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(xi) *Investment Representative* dealing in *futures contracts* or *futures contract options* with	• Futures Licensing Course, and • Conduct and Practices		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
retail or *institutional clients*	Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) , if previously registered with the National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
(xii) *Investment Representative* dealing in mutual funds only	• Canadian Securities Course **or** Canadian Investment Funds Course administered by the Investment Funds Institute of Canada **or** Investment Funds in Canada Course	• Canadian Securities Course and Conduct and Practices Handbook Course within 270 days of initial approval, and • 30-day training	• The *individual* must upgrade to *Investment Representative* within 18 months of initial approval

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
		program within 18 months of initial approval	
Associate Portfolio Managers and Portfolio Managers			
(xiii) *Associate Portfolio Managers* providing discretionary portfolio management for *managed accounts*	• Conduct and Practices Handbook Course, AND Canadian Investment Manager Designation **or** Chartered Investment Manager Designation **or** CFA Level I or any higher level of the CFA Program administered by the CFA Institute AND If managing accounts in *options*: • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course		• Two years of relevant investment management experience acceptable to *IIROC* within three years before requesting approval

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	or New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in *options* within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority AND If managing accounts in *futures contracts/futures contract options*, • Futures Licensing Course, AND Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	Regulatory Authority (on behalf of the National Futures Association) , if previously registered with the National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
(xiv) *Portfolio Managers* providing discretionary portfolio management for *managed accounts*	• Conduct and Practices Handbook Course, AND Canadian Investment Manager Designation **or** Chartered Investment Manager Designation **or** CFA Charter administered by the CFA Institute AND If managing accounts in *options*: • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing		If Canadian Investment Manager Designation or Chartered Investment Manager Designation is completed: • at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval acceptable to *IIROC* **or** If CFA Charter is completed, at least one year of relevant investment management experience within the three years before requesting approval acceptable to *IIROC*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority AND If managing accounts in *futures contracts/futures contract options*: • Futures Licensing Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) if previously registered with National Futures Association in a similar capacity and dealing in futures within three years before requesting approval		
Traders			
(xv) *Trader*	• Trader Training Course, unless otherwise determined by the *Marketplace* on which the *Trader* will be trading		
(xvi) *Trader* on the Montréal Exchange	• Proficiency requirements determined to be acceptable by the Montréal Exchange		
Supervisors – Retail or Institutional			
(xvii) *Supervisor* of *Registered Representatives* or *Investment Representatives* (other than supervising *options* or *futures contracts* and *futures contract options*)	• Investment Dealer Supervisors Course AND • Canadian Securities Course **or** CFA Level I or any higher		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for a Mutual Fund Dealer, portfolio manager or entity

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	level of the CFA Program administered by the CFA Institute and • Conduct and Practices Handbook Course **or** New Entrants Course, if previously registered with a *recognized foreign self-regulatory organization* or an investment dealer within three years before requesting approval		governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
(xviii) *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *options*	• Options Supervisors Course, and Conduct and Practices Handbook Course AND • Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course, **or** New Entrants Course, if		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in *options* within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		
(xix) *Supervisor* of *Registered Representatives* or *Investment Representatives* dealing with clients in *futures contracts* and *futures contract options*	• Canadian Commodity Supervisors Exam and Futures Licensing Course and Conduct and Practices Handbook Course AND • Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or**		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with National Futures Association or an investment dealer and dealing in futures within three years before requesting approval		
Designated Supervisors			
(xx) *Supervisor* designated to be responsible for the opening of new accounts and supervision of account activity	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
(xxi) *Supervisor* designated to be responsible for the supervision of *discretionary accounts*	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
			working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
(xxii) *Supervisor* designated to be responsible for the supervision of *managed accounts*	• Canadian Investment Manager Designation **or** Chartered Investment Manager Designation **or** CFA Charter administered by the CFA Institute AND • If supervising accounts in *options*, the applicable proficiency requirements to trade and supervise *options*, as specified under clause 2602(3)(xviii) AND • If supervising accounts in *futures contracts/futures contract options*, the applicable proficiencies to trade and supervise futures, as specified under clause 2602(3)(xix)		• If completed Canadian Investment Manager Designation or Chartered Investment Manager Designation: at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval **or** If completed CFA Charter: at least one year of relevant investment management experience within the three years before requesting approval

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
(xxiii) *Supervisor* designated to be responsible for the supervision of *options* accounts	• Options Supervisors Course, and Both the Derivatives Fundamentals Course and the Options Licensing Course **or** Derivatives Fundamentals and Options Licensing Course **or** New Entrants Course, if previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
(xxiv) *Supervisor* designated to be responsible for the supervision of *futures contract/futures contract options accounts*	• Canadian Commodity Supervisors Exam and Futures Licensing Course, AND		• Two years of relevant experience working for an investment dealer **or** Two years of relevant supervisory or compliance experience working for

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	• Derivatives Fundamentals Course **or** Derivatives Fundamentals and Options Licensing Course **or** Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) if previously registered with the National Futures Association or an investment dealer and dealing in futures within three years before requesting approval		an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
(xxv) *Supervisor* designated to be responsible for the pre-approval of *advertising*, *sales literature* and *correspondence*	• Investment Dealer Supervisors Course		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
			Council
(xxvi) *Supervisor* designated to be responsible for the supervision of *research reports*	• Three levels of the CFA **or** CFA Charter administered by the CFA Institute **or** Other appropriate qualifications acceptable to the *applicable District Council*		• Two years of relevant experience working for an investment dealer **or** Two years of relevant experience working for an entity governed by a *recognized foreign self-regulatory organization* **or** Such other equivalent experience acceptable to the *applicable District Council*
Executives and Directors			
(xxvii) *Executive* (including *Ultimate Designated Person*)	• Partners, Directors and Senior Officers Course AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		
(xxviii) *Director*	An industry *Director* must complete:		

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	• Partners, Directors and Senior Officers Course, AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category A non-industry *Director* that owns or controls a voting interest of 10% or more, directly or indirectly, must complete: • The Partners, Directors and Senior Officers Course		
(xxix) *Chief Financial Officer*	• Partners, Directors and Senior Officers Course and Chief Financial Officers Qualifying Examination AND • If seeking approval in a trading or advising category, the applicable		• A financial accounting designation, finance related university degree or diploma or equivalent work experience as may be acceptable to *IIROC*

IIROC Rule			
Approved Persons category	**Courses completed before approval**	**Courses to be completed after approval**	**Experience and other requirements**
	proficiency requirements in that category, AND • If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		
(xxx) *Chief Compliance Officer*	• Partners, Directors and Senior Officers Course, and Chief Compliance Officers Qualifying Examination AND • If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, AND If seeking approval as a *Supervisor*, the applicable proficiency requirements in that category		• Five years working for an investment dealer or registered advisor, with at least three years in a compliance or supervisory capacity **or** Three years providing professional services in the securities industry, with at least 12 months experience working at an investment dealer or registered advisor in a compliance or supervisory capacity
Approved investor			
(xxxi) *approved investor* (under subsections 2555(2) and 2555(3))	• Partners, Directors and Senior Officers Course		

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2603. – 2624. Reserved.

Part B - EXEMPTIONS FROM PROFICIENCY REQUIREMENTS

2625. Specific exemptions

(1) A *Chief Compliance Officer* seeking approval as a *Supervisor* of a producing *Supervisor* will not be required to complete the proficiencies required under 2602(3)(xvii) for the purposes of being approved in this capacity, if the producing *Supervisor* is an *Approved Person* who is (a) a *Supervisor* of a *Registered Representative* or *Investment Representative* and (b) actively engaged as a *Registered Representative* dealing with *retail clients*.

(2) Unless otherwise specified, *individuals* approved as of the date the *IIROC* Rules come into effect, are exempt from any new proficiency requirements introduced in subsection 2602(3), provided the *Approved Person* continues in the same role.

2626. General and discretionary exemptions

(1) The *applicable District Council* or its delegate may exempt any *person* or class of *persons* from the requirement to write or rewrite any required course, in whole or in part, if the applicant demonstrates adequate experience, and/or successful completion of courses or examinations that the *applicable District Council* or its delegate, in its opinion, determines is an acceptable alternative to the required proficiency.

(2) This exemption may be subject to any terms and conditions the *applicable District Council* or its delegate believes necessary.

(3) The applicant must pay any fees prescribed by the *Board* for this exemption.

2627. Exemptions from writing the required courses

(1) As set out in the table below, an applicant or *Approved Person* is exempt from writing a required course if the applicant meets the exemption criteria.

IIROC Rule		
Required course	**Course required for exemption**	**Exemption criteria**
90-day Training Program	• none	Request approval within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a Canadian *securities regulatory authority*
30-day Training Program	• none	Request approval within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a Canadian *securities regulatory authority*

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2628. Course validity and exemptions from rewriting courses

(1) Courses are valid for three years from the date of successful completion.

(2) An applicant for approval must rewrite a course if the applicant has not been approved in a category listed in subsection 2602(3) requiring the course within the last three years.

(3) The courses and examinations listed in Rule 2600 includes every prior or successor course or examination provided that it does not have a significantly reduced scope and content when compared to the course or examination listed in Rule 2600, as determined by *IIROC*.

(4) For the purposes of determining course validity, an *Approved Person* is not considered to have been approved during any period in which the *Approved Person's* approval was suspended or the *individual* was on leave or not conducting any activities requiring *IIROC* approval on behalf of the *Dealer Member*.

(5) The validity periods do not apply to the Canadian Investment Manager Designation, the Chartered Investment Manager Designation and the CFA Charter provided the holders of these designations continue to have the right to use the designation and the designation has not been revoked or otherwise restricted.

(6) An *individual* is exempt from rewriting the courses as set out in the table below if the *individual* has met the current status criteria and exemption criteria.

Course	Individual's current status	Exemption criteria
Partners, Directors and Senior Officers Course	• has previously been approved as an *officer* (prior to September 28, 2009) and surrendered registration with	• applicant for approval who has maintained continuous employment with a *Dealer Member* in a senior capacity and remained in the corporate registry of a *Dealer Member* as an *officer* since September 28, 2009

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	the introduction of *IIROC* approval category of *Executive*	
Chief Financial Officers Qualifying Examination	• has never been approved as a *Chief Financial Officer*	• the applicant for approval has demonstrated to *IIROC's* satisfaction that the applicant has been working closely with and assisting the *Chief Financial Officer* since the completion of the Chief Financial Officers Qualifying Examination
Derivatives Fundamentals Course	• an applicant for approval or *Approved Person* who will be dealing with clients in *futures contracts*, or *futures contract options* or supervising *Approved Persons* who deal with such clients	• applicant seeking approval or filing a notice within three years of passing the Futures Licensing Course or the Canadian Commodity Supervisors Exam
Derivatives Fundamentals Course	• an applicant for approval or an *Approved Person* dealing with clients, in *options*, or supervising *Approved Persons* who deal with	• applicant seeking approval or filing a notice within three years of completing the Options Licensing Course or the Options Supervisors Course

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	such clients	
Wealth Management Essentials Course	• an applicant for approval or *Approved Person* who will be dealing with *retail clients* in securities	• all three levels of the CFA Program or the CFA Charter administered by the CFA Institute which continues to be in good standing
90-day Training Program	• an applicant for approval or *Approved Person*	Applicants seeking approval or filing a notice within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a *securities regulatory authority*
30-day Training Program	• an applicant for approval or *Approved Person*	Applicants seeking approval or filing a notice within three years of being approved or registered in a capacity allowing trading of, or advising in, securities for *retail clients* either: • by a recognized foreign regulatory authority or *recognized foreign self-regulatory organization*, **or** • as an advising representative by a *securities regulatory authority*

2629. Transition of Registered Representatives (with a business type of portfolio management) into the new registration regime

(1) An *Approved Person* who is approved as a *Registered Representative* with a business type of portfolio management shall transition to either:

(i) the *Portfolio Manager* approval category if the *Approved Person* is not under direct supervision and has provided discretionary

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management to *managed accounts* for at least two years, including at least one year managing on a discretionary basis more than $5 million in assets, or

(ii) the *Associate Portfolio Manager* approval category if the *Approved Person* does not satisfy requirements of clause 2629(1)(i).

(2) *Dealer Members* will have four months from the date the *IIROC* Rules come into effect to:

(i) review the approval category of each *Approved Person* who is approved as a *Registered Representative* with a business type of portfolio management and propose to *IIROC* whether the *Approved Person* should be approved as a *Portfolio Manager* or an *Associate Portfolio Manager*, and

(ii) file a Form 33-109F2 submission via the *National Registration Database* (defined in subsection 2802(1)) to remove both the *Registered Representative* approval category and the business type of portfolio management and add the applicable corresponding approval category of *Associate Portfolio Manager* or *Portfolio Manager*.

(3) Any *Dealer Member* that fails to comply with subsection 2629(1) within the time period specified in subsection 2629(2) may be liable for and pay to *IIROC* such fees as the *Board* may prescribe from time to time.

2630. Transition of Advising Representatives and Associate Advising Representatives into the Portfolio Manager and Associate Portfolio Manager approval category

(1) An *individual* registered as an advising representative or associate advising representative by a *securities regulatory authority* within the two weeks prior to the date of approval as a *Portfolio Manager* or *Associate Portfolio Manager* by *IIROC* has three months to complete the Conduct and Practices Handbook Course.

(2) *IIROC* will:

(i) automatically suspend the approval of the *Portfolio Manager* or *Associate Portfolio Manager* if he or she does not complete the Conduct and Practices Handbook Course within the timeframe set out in 2630(1), and

(ii) reinstate the *Portfolio Manager* or *Associate Portfolio Manager* once he or she has successfully completed the Conduct and Practices Handbook Course and has notified *IIROC*.

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2631. – 2699. Reserved.

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RULE 2700

CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS

2701. Introduction

(1) *IIROC* requires *Approved Persons* to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies.

(2) Rule 2700 is divided into the following parts:

Part A – The continuing education program and continuing education requirements
[sections 2703 and 2704]

Part B – Continuing eduction program courses and administration
[sections 2715 through 2717]

Part C – Participation in the continuing education program
[sections 2725 and 2726]

Part D – Changes during a continuing education program cycle
[section 2735]

Part E – Discretionary relief
[section 2745]

Part F – Penalties for not completing continuing education requirements
[section 2755]

Part G – Transition
[sections 2765 and 2766]

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2702. Definitions

(1) The following terms have the meaning set out below when used in sections 2703 through 2799:

"continuing education course"	A single, integrated course or series of relevant courses, seminars, programs or presentations that together meet the time and content requirements for continuing education set out in Rule 2700.
"continuing education participant"	An *Approved Person* approved in one or more of the categories set out in subsection 2704(1).
"continuing education program"	*IIROC's* continuing education program, consisting of compliance and professional development requirements.

Part A - THE CONTINUING EDUCATION PROGRAM AND CONTINUING EDUCATION REQUIREMENTS

2703. The continuing education program

(1) The *continuing education program* consists of two parts:

(i) a compliance course, which is training covering ethical issues, regulatory developments and rules governing investment dealer conduct, and

(ii) a professional development course, which is training that fosters learning and development in areas relevant to investment dealer business.

(2) The *continuing education program* operates in two year cycles. The first two year cycle will commence on January 1, 2018. The beginning and end of each *continuing education program* cycle is the same for all *continuing education participants*.

(3) A *Dealer Member* or external course provider may provide a *continuing education course*.

(4) A *Dealer Member* or external course provider may submit continuing education courses for accreditation through *IIROC's* accreditation process.

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(5) A *continuing education participant* is exempt from professional development course requirement if he or she:

(i) is approved in the category of *Registered Representative* or *Supervisor,* and

(ii) has been continuously approved in a trading capacity since January 1, 1990 or earlier by *IIROC*, the Toronto Stock Exchange, the Montreal Exchange, or the TSX Venture Exchange including any of its predecessors.

2704. Continuing education requirements

(1) In each *continuing education program* cycle, a *continuing education participant* must meet the continuing education requirements for the applicable *Approved Person* category, regardless of product type, as set out in the following table.

Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
Registered Representative	*retail client*	Yes	Yes
Registered Representative	*institutional client*	Yes	No
Investment Representative	*retail client* or *institutional client*	Yes	No
Portfolio Manager	*retail client* or *institutional client*	Yes	Yes
Associate Portfolio Manager	*retail client* or *institutional client*	Yes	Yes
Trader	N/A	Yes	No
Supervisor of *Registered Representatives*	*retail client*	Yes	Yes
Supervisor of *Investment*	*retail client*	Yes	No

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	Representatives			
	Supervisor of *Registered Representatives* or *Investment Representatives*	*institutional client*	Yes	No
	Supervisor designated to be responsible for the supervision of *options* accounts	*retail client* or *institutional client*	Yes	No
	Supervisor designated to be responsible for the supervision of *futures contract/futures contract options* accounts	*retail client* or *institutional client*	Yes	No
	Supervisor designated to be responsible for the supervision of *managed accounts*	*retail client* or *institutional client*	Yes	No
	Supervisor designated to be responsible for the opening of new accounts and supervision of account activity	*retail client* or *institutional client*	Yes	No
	Supervisor designated to be responsible for the supervision of *discretionary accounts*	*retail client* or *institutional client*	Yes	No
	Supervisor designated to be responsible for the pre-approval of *advertising, sales literature* and *correspondence*	N/A	Yes	No
	Supervisor designated to be responsible for the supervision of	N/A	Yes	No

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research reports			
Ultimate Designated Person	N/A	Yes	No
Chief Compliance Officer	N/A	Yes	No

(2) A *continuing education participant* registered in more than one *Approved Person* category must meet the continuing education requirements of the category with the most onerous continuing education requirements.

(3) All *continuing education participants* must complete at least 10 hours of compliance courses in each *continuing education program* cycle.

(4) A *continuing education participant* that is subject to professional development requirements must complete at least 20 hours of professional development courses in each *continuing education program* cycle.

2705. – 2714. Reserved.

Part B – CONTINUING EDUCATION PROGRAM COURSES AND ADMINISTRATION

2715. The compliance course

(1) A *continuing education participant*:

(i) cannot carry forward compliance course credits to satisfy continuing education requirements of a subsequent *continuing education program* cycle,

(ii) may receive continuing education credit for a compliance course with an examination, only if the *continuing education participant* successfully passes the examination, and

(iii) may receive continuing education credit of a maximum of five hours for compliance *continuing education courses* recognized by a foreign securities regulator.

(2) A *Dealer Member* may give continuing education credit for *Dealer Member* compliance manual training where:

(i) the content of the compliance manual training satisfies clause 2703(1)(i), and

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(ii) the compliance manual training is delivered by the *Dealer Member* through in-person seminars, or webinars that are accompanied by a method of evaluation.

(3) *IIROC* will publish a list of approved ethics courses that a *continuing education participant* can repeat and count towards fulfillment of the compliance course requirement in two *continuing education program* cycles.

2716. The professional development course

(1) A *continuing education participant* subject to the professional development requirement:

(i) may carry forward a maximum of 10 hours of a single professional development course completed in the last six months of the current *continuing education program* cycle to satisfy a portion of his or her professional development course requirement in the following *continuing education program* cycle,

(ii) may receive continuing education credit for successful completion of the Wealth Management Essentials Course, where completed to satisfy the post-licensing requirement for *Registered Representatives* dealing with *retail clients*, in the *continuing education program* cycle in which the course is completed, and

(iii) may receive continuing education credit for a professional development course with an examination, only if the *continuing education participant* successfully passes the examination.

2717. Dealer Member's administration of the continuing education program

(1) A *Dealer Member* must:

(i) keep evidence of a *continuing education participant's* completion of the *continuing education course*, which may be a certificate issued by the course provider, an attendance sheet, or bulk notice of completion,

(ii) keep *continuing education program records,* including course related materials, for each *continuing education program* cycle for a minimum of seven years following the end of the *continuing education program* cycle,

(iii) designate an *individual* responsible for supervising training and approving a *continuing education participant's* chosen *continuing education course*,

(iv) ensure that a *continuing education participant's* chosen *continuing education course* satisfies the content criteria described in

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subsection 2703(1),

(v) verify completion of a *continuing education course* and, where the course is delivered by the *Dealer Member,* evaluate a *continuing education participant's* knowledge and understanding of the course material through examination, course work, or case study,

(vi) ensure that each *continuing education participant* meets the continuing education requirements during each *continuing education program* cycle, and

(vii) update the continuing education reporting system and notify *IIROC* within 10 days after the end of the *continuing education program* cycle of all *continuing education participants* that have met their continuing education requirements in the *continuing education program* cycle.

(2) A *Dealer Member* may allow a *continuing education participant* to use the continuing education credits earned through courses or seminars completed at the *continuing education participant's* former sponsoring *Dealer Member*. A *Dealer Member* may accept a statement of completion issued by the *continuing education participant's* former sponsoring *Dealer Member*.

(3) A former *Approved Person* required to rewrite the Canadian Securities Course and the Conduct and Practices Handbook Course in order to qualify for re-approval, may receive credit for 10 professional development course hours and five compliance course hours in the *continuing education program* cycle in which the former *Approved Person* rewrites these courses. A former *Approved Person* cannot carry forward these *continuing education course* credits to the next *continuing education program* cycle.

2718. – 2724. Reserved.

Part C – PARTICIPATION IN THE CONTINUING EDUCATION PROGRAM

2725. Participation of recently Approved Persons

(1) An *individual* enters the *continuing education program* cycle upon approval in an *Approved Person* category listed in subsection 2704(1).

(2) Notwithstanding subsection 2725(1), an *individual* that receives approval in an *Approved Person* category listed in subsection 2704(1) during the last six months of the current *continuing education program* cycle will become subject to the applicable continuing education requirements at the beginning of the next *continuing education program* cycle.

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2726. Voluntary participation in the continuing education program

(1) Voluntary participation in the *continuing education program* will extend the validity period of the Canadian Securities Course. This extension is valid until the end of the sixth month of the next *continuing education program* cycle.

(2) *IIROC* will publish a list of courses that qualify for voluntary participation in the *continuing education program*.

(3) An *individual* may voluntarily participate in the *continuing education program* by completing a course or courses on the list referred to in subsection 2709(2).

(4) To extend the validity period, an *individual* must complete the course or courses on the list referred to in subsection 2726(2) in the *continuing education program* cycle in which the Canadian Securities Course expired and must continue voluntary participation in each *continuing education program* cycle, until the *individual* is approved in an *Approved Person* category.

2727. – 2734. Reserved.

Part D - CHANGES DURING A CONTINUING EDUCATION PROGRAM CYCLE

2735. Changes to Approved Persons category during a continuing education program cycle

(1) A *continuing education participant* who changes his or her *Approved Person* category during a *continuing education program* cycle must complete the continuing education requirements applicable to the new *Approved Person* category in the same *continuing education program* cycle.

(2) Notwithstanding subsection 2735(1), a *continuing education participant* who changes his or her *Approved Person* category during the last six months of the current *continuing education program* cycle, becomes subject to the applicable continuing education requirements of the new *Approved Person* category at the beginning of the next *continuing education program* cycle.

(3) A *continuing education participant* may not change *Approved Person* categories to avoid continuing education requirements or penalties for non-completion of continuing education requirements. Any change to the *Approved Person* category during the last six months of the *continuing education program* cycle which results in less onerous continuing education requirements must be accompanied by an

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explanation from the sponsoring *Dealer Member* sufficient to satisfy *IIROC* that the category change is not an avoidance measure.

2736. – 2744. Reserved.

Part E – DISCRETIONARY RELIEF

2745. Discretionary Relief

(1) *IIROC* may extend the time a *continuing education participant* has to complete any *continuing education course* beyond the two year *continuing education program* cycle due to, but not limited to, an illness if:

(i) an *Executive* at the *continuing education participant's* sponsoring *Dealer Member*:

(a) approves the extension,

(b) notifies *IIROC* of the reason for the extension, and

(c) proposes the new date of completion of the required course,

and

(ii) the *applicable District Council,* or its delegate, approves the request for an extension.

(2) In the case of an indefinite leave of absence, *IIROC* may exempt from the *continuing education program* a *continuing education participant* who is unable to complete his or her continuing education requirements due to, but not limited to an illness, for more than one *continuing education program* cycle if:

(i) an *Executive* at the *continuing education participant's* sponsoring *Dealer Member*:

(a) approves the exemption,

(b) notifies *IIROC* of the reason for the exemption, and

(c) states that the leave is for an indefinite period,

and

(ii) the *applicable District Council,* or its delegate, approves the request for an exemption.

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(3) A *continuing education participant* who is granted an exemption under subsection 2745(2) and returns to the industry after an absence of:

(i) three years or less must have the *applicable District Council ,* or its delegate, determine the continuing education requirements before he or she resumes any activity that needs approval, or

(ii) more than three years must meet the applicable proficiency and registration requirements for his or her *Approved Person* category.

2746. – 2754. Reserved.

Part F - PENALTIES FOR NOT COMPLETING CONTINUING EDUCATION REQUIREMENTS

2755. Penalties for not completing continuing education requirements in a continuing education program cycle

(1) If a *continuing education participant* fails to complete the continuing education requirements within a *continuing education program* cycle, *IIROC* will impose a fine of $2500 on the sponsoring *Dealer Member* and will automatically suspend the approval of the *continuing education participant*.

(2) *IIROC* may reinstate the *continuing education participant's* approval after the sponsoring *Dealer Member* has notified *IIROC* in writing that the *continuing education participant* has completed the continuing education requirements.

(3) If a sponsoring *Dealer Member* pays a fine in error, *IIROC* will issue a refund provided the *Dealer Member* requests a refund within 120 days of the date the invoice is issued by *IIROC*.

2756. – 2764. Reserved.

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Part G - TRANSITION

2765. Transition – Penalties for not completing continuing education requirements for the January 1, 2015 to December 31, 2017 continuing education program cycle

(1) Notwithstanding subsection 2755(1), if a *continuing education participant* fails to complete the continuing education requirements for the January 1, 2015 to December 31, 2017 *continuing education program* cycle, *IIROC* will impose a fine of $500 a month on the sponsoring *Dealer Member*. *IIROC* will begin to impose the fine 10 days after the end of the *continuing education program* cycle. *IIROC* will continue to impose the fine monthly until the *continuing education participant* completes the continuing education requirements or six months pass, whichever is earlier.

(2) If a *continuing education participant* does not complete the continuing education requirements for the January 1, 2015 to December 31, 2017 *continuing education program* cycle by June 30, 2018, *IIROC* will automatically suspend the approval of the *continuing education participant*.

(3) *IIROC* may reinstate the *continuing education participant's* approval after the sponsoring *Dealer Member* has notified *IIROC* in writing that the *continuing education participant* has completed the continuing education requirements.

2766. Transition – Carry Forward of professional development courses

(1) A *continuing education participant* may carry forward 20 hours of a single professional development course completed in the January 1, 2015 to December 31, 2017 *continuing education program* cycle to satisfy his or her professional development course requirement in the first two year *continuing education program* cycle commencing January 1, 2018.

2767. – 2799. Reserved.

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RULE 2800

THE NATIONAL REGISTRATION DATABASE

2801. Introduction

(1) A *Dealer Member* must participate in the *National Registration Database* (defined insubsection 2802(1).

(2) A *Dealer Member* must ensure timely and accurate filings on the *National Registration Database*.

2802. Definitions

(1) The following terms have the meaning set out below when used in sections 2803 through 2808:

"authorized firm representative"	For a *Dealer Member*, an *individual* with his or her own *National Registration Database* user identification and who is authorized by the *Dealer Member* to submit information in *National Registration Database format* for that *Dealer Member* and *individual* applicants with respect to whom the *Dealer Member* is the sponsoring *Dealer Member*.
"chief authorized firm representative"	For a *Dealer Member* filer, an *individual* who is an *authorized firm representative* and has accepted an appointment as a *chief authorized firm representative* by the *Dealer Member*.
"National Registration Database"	The online electronic database of registration and approval information regarding *Dealer Members*, their registered or *Approved Persons* and other firms and *individuals* registered under *securities laws*, and includes the computer system providing for the transmission, receipt, review and dissemination of that registration information by electronic means. including, any successor database.
"National Registration Database account"	An account with a member of the Canadian Payments Association from which fees may be paid with respect to *National Registration Database* by electronic pre-authorized debit.
"National Registration Database Administrator"	The Alberta Securities Commission or a successor appointed by the *securities regulatory authorities* to operate the *National Registration Database*.

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"National Registration Database format"	The electronic format for submitting information through the *National Registration Database website*.
"National Registration Database submission"	The information that is submitted under *securities laws*, securities directions or under Rule 2800, in the *National Registration Database format*, or the act of submitting information under *securities laws*, securities directions or under Rule 2800, in the *National Registration Database format,* as the context requires.
"National Registration Database website"	The website operated by the *National Registration Database Administrator* for the *National Registration Database submissions*.

2803. Dealer Member obligations for the National Registration Database

(1) A *Dealer Member* must, as prescribed by the applicable *securities laws*:

(i) enroll in the *National Registration Database* and pay the enrollment fee to *the securities regulatory authority* in the *Dealer Member's* principal jurisdiction,

(ii) enroll, with the *National Registration Database Administrator*, only one *chief authorized firm representative* responsible for the *Dealer Member's National Registration Database* filings,

(iii) notify the *National Registration Database Administrator*, of the appointment of a new *chief authorized firm representative* within seven days of the appointment,

(iv) notify the *National Registration Database Administrator*, of any change in name, phone number, fax number or email address of the *chief authorized firm representative* within seven days of the change,

(v) maintain only one *National Registration Database account*, and

(vi) submit through the *National Registration Database* any change of an *authorized firm representative* who is not the *chief authorized firm representative*, within seven days.

(2) The following list describes the submission requirements as prescribed by *securities laws*.

(i) A *Dealer Member* must make the following submissions using the *National Registration Database* on the *National Registration Database* form specified.

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Type of submission	Form and timeline for submission
(a) an application for approval of an *individual* under any *IIROC* requirement	Form 33-109F4 - Registration of Individuals and Review of Permitted Individuals
(b) a notification of any change in the type of business which an *Approved Person* will conduct	Form 33-109F2 - Change or Surrender of Individual Categories
(c) (I) an application for different or additional approval under *IIROC requirements* for any *Approved Person*, (II) a surrender of existing approval	Form 33-109F2 - Change or Surrender of Individual Categories
(d) a report of a change of information regarding an *Approved Person* previously submitted in Form 33-109F4	Form 33-109F5 - Change of Registration Information , within the time periods and manner prescribed in National Instrument 33-109 and 33-109CP.
(e) an application for an exemption from a proficiency requirement of section 2602 for an *Approved Person* or applicant for approval	"Apply for an Exemption" submission on the *National Registration Database*
(f) a notification of a *Dealer Member* terminating (I) the employment of, or (II) principal or *agent* relationship with an *Approved Person*	Form 33-109F1 - Notice of Termination of Registered Individuals and Permitted Individuals. Items one through four of this form must be filed within 10 days of the cessation date. Item five must be filed within 30 days of cessation date unless the reason for termination under item four is that the *individual* is deceased.
(g) a notification of a *business location* opening or closing under section 2202	Form 33- 109F3 - Business locations other than head office ,within 10 days of the opening or closing
(h) a notification of change of address, type of location or supervision of any *business location*	Form 33-109F3 - Business locations other than head office, within 10 days of the change

(i) notification of reinstatement of *individual* approval.	Form 33-109F7 - Reinstatement of Registered Individuals and Permitted Individuals, within 90 days of the cessation date from the previous sponsoring firm (see section 2808 for eligible criteria before making this filing).

(ii) Before filing a notice of change of business type under sub-clause 2803(2)(i)(b) above, a *Dealer Member* must notify *IIROC* through the *National Registration Database* that either:

(a) the *Approved Person* has completed the necessary proficiency requirements under section 2602(3) to undertake the type of business, or

(b) the *Approved Person* has been granted an exemption from the proficiency requirements under sections 2625 through 2628.

2804. Temporary hardship exemption

(1) A *Dealer Member* that cannot file a document in the *National Registration Database format* within the time required under subsection 2803(2) because of unexpected technical problems must submit the document outside of the *National Registration Database* within seven days of the required filing date.

(2) When submitting outside of the *National Registration Database* under subsection 2804(1), the *Dealer Member* must include the following text at the top of the first page of the submission in capital letters:

"IN ACCORDANCE WITH SECTION 2804 OF THE IIROC RULES AND PART 5 OF NATIONAL INSTRUMENT 31-102 NATIONAL REGISTRATION DATABASE, WE ARE SUBMITTING THIS [SPECIFY DOCUMENT] OUTSIDE OF NATIONAL REGISTRATION DATABASE UNDER A TEMPORARY HARDSHIP EXEMPTION."

(3) As soon as practicable, but within fourteen days after the unexpected technical problems have been fixed, a *Dealer Member* must resubmit using the *National Registration Database format* the information filed outside of the *National Registration Database* under subsection 2804(1).

2805. Due diligence and record keeping

(1) A *Dealer Member* must make reasonable efforts to ensure that the information submitted through the *National Registration Database* is

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true and complete.

(2) A *Dealer Member* must keep all documents used to meet its obligation under subsection 2805(1) for seven years after the *individual* ceases to be an *Approved Person* of the *Dealer Member*, or in any case when an *individual* who applied for approval was refused or withdrawn.

(3) A *Dealer Member* must record the *National Registration Database submission* number on any document kept under subsection 2805(2).

(4) For recently approved *individuals*, a *Dealer Member* must obtain, within 60 days of approval, a copy of the most recent Form 33-109F1 issued in respect of the *individual* by the former sponsoring *Dealer Member*.

2806. Fees

(1) A *Dealer Member* must pay, the annual *National Registration Database* system fee set by *IIROC,* to the *securities regulatory authority* in the local jurisdiction by electronic pre-authorized debit through the *National Registration Database*.

(2) The following fees must be submitted as prescribed by *securities laws* and *IIROC requirements*:

(i) a *Dealer Member* making any *National Registration Database submission* under section 2803 must pay the prescribed fees for the submission, together with the *National Registration Database* system fee, to the *securities regulatory authority* in the *Dealer Member's* local jurisdiction for the use of the *National Registration Database*,

(ii) a *Dealer Member* must pay any prescribed fees for failure to file any notification within the time specified, and

(iii) a *Dealer Member* is required to pay all fees payable under section 2806 through its *National Registration Database account* by pre-authorized electronic debit.

(3) A *Dealer Member* making an application for a proficiency exemption, for an *Approved Person* or applicant for approval, will be liable for and pay *IIROC* an exemption request fee as prescribed from time to time by the *Board*.

2807. Termination

(1) A *Dealer Member* must notify *IIROC* of the termination of an *Approved Person,* within the time period and the manner prescribed in National Instrument 33-109.

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(2) Approval of an *individual* will be suspended by *IIROC* if:

(i) the *individual* ceases to be an *Approved Person* with a *Dealer Member*, or

(ii) the approved agency relationship with a *Dealer Member* is terminated.

(3) A *Dealer Member* must, within 10 days of receiving a request from an *individual* that was its former *Approved Person*, provide to the *individual* a copy of the Form 33-109F1 that the *Dealer Member* submitted under subsection 2807(1) in respect of that *individual*.

(4) If a *Dealer Member* completed and submitted the information in item five of Form 33-109F1 in respect of an *individual* who made a request under subsection 2807(3) and that information was not included in the initial copy provided to the *individual*, the *Dealer Member* must provide to that *individual* a further copy of the completed Form 33-109F1, including the information in item five, within the latter of:

(i) 10 days after the request by the *individual* under subsection 2807(3), and

(ii) 10 days after the submission pursuant to subsection 4.2(2)(b) of National Instrument 33-109.

2808. Reinstatement of suspended Approved Persons

(1) The approval of an *Approved Person* suspended under subsection 2807(2) will be reinstated by *IIROC* on the date the *Dealer Member* submits a completed Form 33-109F7 if:

(i) Form 33-109F7 is submitted within 90 days of the cessation date,

(ii) there has been no change to the information previously submitted in respect of regulatory, criminal, civil and financial disclosure (items 13 [other than 13.3(a)]), 14, 15 and 16 of Form 33-109F4 respectively),

(iii) the *individual's* employment or agency relationship with the former sponsoring *Dealer Member* did not end because the *individual* resigned voluntarily, was asked by the *Dealer Member* to resign or was dismissed, following an allegation against the *individual* of any of the following:

(a) criminal activity,

(b) a breach of *securities laws*, or

(c) a breach of the rules of an *SRO*,

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(iv) the *individual* is seeking reinstatement with a sponsoring firm in one or more of the same categories in which the *individual* was approved on the cessation date, and (v) the new *Dealer Member* is registered in the same category (or subset thereof) of registration in which the *individual's* former *Dealer Member* was registered. **2809. – 2999. Reserved.**

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RULE 3100

DEALING WITH CLIENTS

3101. Introduction

(1) Rule 3100 sets out a *Dealer Member's* obligations with respect to their dealings with their clients. The requirements are intended to underpin *IIROC's* objectives of maintaining investor confidence in securities markets and reinforcing a *Dealer Member's* responsibility to observe high standards of ethics and conduct in their dealings with clients.

(2) Rule 3100 is divided into the following parts:

Part A – Business Conduct
[sections 3102 and 3103]
Part B – Conflicts of interest
[sections 3110 through 3118]
Part C – Best execution of client orders
[sections 3119 through 3129]

Part A – BUSINESS CONDUCT

3102. Business conduct

(1) A *Dealer Member* must ensure that it handles its clients' business within the bounds of ethical conduct, consistent with just and equitable principles of trade, and in a manner that is not detrimental to the interests of the investing public and the securities industry.

(2) A *Dealer Member* must use due diligence to ensure that all orders or recommendations for any account are within the bounds of good business practice.

3103. Know-your-client

(1) A *Dealer Member* must use due diligence to learn and remain informed of the essential facts concerning every client and for every order or account it accepts.

(2) Compliance with the *IIROC requirements* relating to know-your-client is primarily the responsibility of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* assigned to the client account.

(3) The responsibility in subsection 3103(2) must not be delegated to any other person.

3104. – 3109. Reserved.

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Part B – CONFLICTS OF INTEREST

3110. Responsibility to identify conflicts of interest

(1) A *Dealer Member* and, where applicable, *Approved Person* shall take reasonable steps to identify existing and potential material conflicts of interest between the interests of the *Dealer Member* or *Approved Person* and the interests of the client.

(2) Where an *Approved Person* becomes aware of an existing or potential material conflict of interest, the existing or potential conflict shall be reported immediately to the *Dealer Member*.

3111. Approved Person responsibility to address conflicts of interest

(1) The *Approved Person* must consider the implications of any existing or potential material conflicts of interest between the *Approved Person* and the client.

(2) The *Approved Person* must address all existing or potential material conflicts of interest between the *Approved Person* and the client in a fair, equitable and transparent manner, and consistent with the best interests of the client or clients.

(3) Any existing or potential material conflict of interest between the *Approved Person* and the client that cannot be addressed in a fair, equitable and transparent manner, and consistent with the best interests of the client or clients, must be avoided.

3112. Dealer Member responsibility to address conflicts of interest

(1) The *Dealer Member* must consider the implications of any existing or potential material conflicts of interest between the *Dealer Member* and the client.

(2) The *Dealer Member* must address the existing or potential material conflict of interest in a fair, equitable and transparent manner, and considering the best interests of the client or clients.

(3) Any existing or potential material conflict of interest between the *Dealer Member* and the client that cannot be addressed in a fair, equitable and transparent manner, and considering the best interests of the client or clients, must be avoided.

(4) The *Dealer Member* must adequately supervise how existing or potential material conflicts of interest between the *Approved Person* and the client are addressed by its *Approved Person*s pursuant to section 3111.

3113. Responsibility to disclose conflicts of interest

(1) Unless avoided, an existing or potential material conflict of interest must be disclosed to the client in all cases where a reasonable client would expect to be informed:

(i) for new clients, prior to opening an account for the client, and

(ii) for existing clients, either as the conflict of interest occurs or in the case of a transaction related conflict of interest, prior to entering into the transaction with the client.

3114. Conflicts of interest policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address identifying, avoiding,

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disclosing and addressing material conflict of interest situations.

3115. Personal financial dealings

(1) An *employee* or *Approved Person* of a *Dealer Member* must not, directly or indirectly, engage in any personal financial dealings with clients.

(2) Personal financial dealings include, but are not limited to, the following types of dealings:

(i) Accepting any consideration

(a) Except as described in paragraphs 3115(2)(i)(a)(I) and 3115(2)(i)(a)(II) accepting any consideration, including *remuneration*, gratuity or benefit, from any *person* other than the *Dealer Member* for any activities conducted on behalf of a client.

(I) Consideration that is non-monetary, of minimal value, and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest or otherwise improperly influenced the *Dealer Member* or its *employees* would not be considered to be consideration for the purposes of sub-clause 3115(2)(i)(a).

(II) Compensation received from a client in exchange for services provided through an approved outside business activity would not be considered to be consideration for the purpose of sub-clause 3115(2)(i)(a).

(ii) Settlement agreements without the *Dealer Member's* approval

(a) Entering into a settlement agreement without the *Dealer Member's* prior written consent, or

(b) Paying for client account losses out of personal funds without the *Dealer Member's* prior written consent.

(iii) Borrowing from clients

(a) Borrowing money or receiving a *guarantee* in relation to borrowing money, securities or any other assets from a client, unless:

(I) the client is a financial institution whose business includes lending money to the public and the borrowing is in the normal course of the institution's business, or

(II) the client is a Related Person as defined by the Income Tax Act (Canada) and the transaction is addressed in accordance with the *Dealer Member's* policies and procedures,

and

(III) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement set out in paragraph 3115(2)(iii)(a)(II) is disclosed to and approved in writing by the *Dealer Member*, prior to the transaction.

(iv) Lending to clients

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(a) Lending money, or providing a *guarantee* in relation to a loan of money, securities or any other assets to a client, unless:

(I) the client is a Related Person as defined by the Income Tax Act (Canada) and the transaction complies with the *Dealer Member's* policies and procedures, and

(II) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement set out in paragraph 3115(2)(iv)(a)(I) is disclosed to and approved in writing by the *Dealer Member*, prior to the transaction.

(v) Control or authority

(a) Acting as a Power of Attorney, trustee, executor, or otherwise having full or partial control or authority over the financial affairs of a client, unless:

(I) the client is a Related Person as defined by the Income Tax Act (Canada) and the existence of such control is addressed in accordance with the *Dealer Member's* policies and procedures, and

(II) in the case of *Associate Portfolio Managers*, *Portfolio Managers*, *Investment Representatives* and *Registered Representatives*, the arrangement in paragraph 3115(2)(v)(a)(I) is disclosed to and approved in writing by the *Dealer Member*, prior to entering into the arrangement.

(b) In the case of *discretionary accounts* and *managed accounts*, paragraph 3115(2)(v)(a)(I) does not apply to the extent that the control or authority is solely exercised consistent with the terms of the *discretionary account* agreement or the *managed account* agreement, and with *IIROC requirements* for such accounts.

3116. Offering gratuity

(1) A *Dealer Member* or any *Approved Person, employee* or shareholder of a *Dealer Member* must not give, offer, or agree to give or offer, directly or indirectly, a gratuity, advantage, benefit or any other consideration, in relation to any business of the client with the *Dealer Member*, to any partner, director, officer, employee, agent or shareholder of a client or any *associate* of such *persons*.

(2) Subsection 3116(1) does not apply if the prior written consent of the client has been obtained.

3117. Mutual fund sales incentives

(1) For purposes of section 3117, the term "non-cash sales incentive" includes, without limitation, domestic or foreign trips, goods, services, gratuities, advantages, benefits or any other non-cash compensation.

(2) A *Dealer Member*, *related company*, partner, *employee* or *Approved Person* of the *Dealer Member* or *related company*, must not, directly or indirectly, accept or pay any non-cash sales incentive in

connection with the sale or distribution of mutual fund products.

(3) The prohibition against non-cash mutual fund sales incentives in section 3117 does not apply to:

(i) non-cash sales incentives earned or awarded through a Dealer Member's internal incentive program for which eligibility is determined with respect to all services and products offered by the Dealer Member,

(ii) commissions or fees payable in cash and calculated with reference only to particular sales or volumes of sales of mutual fund,

(iii) service fees or trailing commissions,

(iv) cost of marketing materials, or

(v) normal and reasonable business promotion activities taking place where the recipient is employed or resides.

3118. Tied selling

(1) A *Dealer Member* must not require a client to purchase, use or invest in any product, service or security as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying, continuing to supply or selling a product, service or security.

(2) Subsection 3118(1) does not prohibit a *Dealer Member* from providing financial incentives or advantages such as relationship pricing or other beneficial selling arrangements, to clients.

Part C – BEST EXECUTION OF CLIENT ORDERS

3119. Definitions

(1) The following terms have the meaning set out below when used in sections 3119 through 3129:

"best execution"	Obtaining the most advantageous execution terms reasonably available under the circumstances.
"foreign exchange-traded security"	A security, other than a *listed security*, that is listed on a *foreign organized regulated market*.
"foreign organized regulated market"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"last sale price"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"listed security"	A security listed on an exchange, other than an *option*.
"Opening Order"	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
"over-the-counter securities"	*Debt securities* , contracts for difference and foreign exchange contracts, but does not include:

	(i) *listed securities*, (ii) primary market transactions in securities, and (iii) over-the-counter *derivatives* with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.
"Trading Rules"	The same meaning as set out in the Universal Market Integrity Rules, section1.1.

3120. Best execution obligation

(1) A *Dealer Member*'s policies and procedures must specifically address achieving *best execution* for client orders.

3121. Best execution factors

(1) The policies and procedures for achieving *best execution* must address the following broad factors when executing all client orders:
   (i) the price of the security,
   (ii) the speed of execution of the client order,
   (iii) the certainty of execution of the client order, and
   (iv) the overall cost of the transaction, when costs are passed on to clients.

(2) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for *best execution* of client orders for *listed securities* and *foreign-exchange traded securities* must address the following specific factors:
   (i) the considerations taken into account when determining appropriate routing strategies for client orders,
   (ii) the considerations for fair pricing of *Opening Orders* when determining where to enter an *Opening Order*,
   (iii) the considerations when not all *Marketplaces* are open and available for trading,
   (iv) how order and trade information from all appropriate *Marketplaces*, including unprotected *Marketplaces* and *foreign organized regulated markets*, is taken into account,
   (v) the factors related to executing client orders on unprotected *Marketplaces*, and
   (vi) the factors related to sending client orders to a foreign intermediary for execution.

(3) The policies and procedures for *best execution* must address the factors used to achieve *best execution* when manually handling a client order for trades on a *Marketplace*, including the following "prevailing market conditions":
   (i) the direction of the market for the security,
   (ii) the depth of the posted market,
   (iii) the *last sale price* and the prices and volumes of previous trades,

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(iv) the size of the spread, and

(v) the liquidity of the security.

3122. Best execution process

(1) The policies and procedures for *best execution* must specifically address the process for achieving *best execution* that includes the following:

(i) for the execution of all client orders:

(a) requiring the *Dealer Member* to consider the instructions of a client, subject to its obligations under *IIROC requirements* and *securities laws*, and

(b) describing any material conflicts of interest that may arise when sending client orders for handling or execution and how these conflicts are to be managed,

and,

(ii) for the execution of client orders for *listed securities* and *foreign exchange-traded securities* that trade on a *Marketplace*:

(a) describing the *Dealer Member's* order handling and routing practices for achieving *best execution*,

(b) taking into account order and trade information from all appropriate *Marketplaces*,

(c) the rationale for accessing or not accessing particular *Marketplaces*, and

(d) the circumstances under which a *Dealer Member* will move an order entered on one *Marketplace* to another *Marketplace*.

3123. Non-executing Dealer Member best execution policies and procedures

(1) A *Dealer Member* that engages another *Dealer Member* to provide execution services on its behalf may include in its policies and procedures for *best execution* a link to the executing *Dealer Member's best execution* disclosure to comply with its obligations under clause 3122(1)(ii) and sections 3126 and 3129, provided that the non-executing *Dealer Member's* policies and procedures for *best execution* specifically address the following:

(i) the non-executing *Dealer Member* must conduct an initial review of the best execution disclosure of the executing *Dealer Member* and a review when material changes are made to the disclosure, to provide reasonable assurance that the executing *Dealer Member*'s policies and procedures for *best execution* are complete and appropriate for its clients,

(ii) the non-executing *Dealer Member* must obtain an annual attestation from the executing *Dealer Member* that it has complied with and tested its policies and procedures on *best execution* in accordance with sections 3119 through 3129, and

(iii) the non-executing *Dealer Member* must follow-up with the executing *Dealer Member* if it identifies trade execution results that are inconsistent with the executing *Dealer Member's best execution* disclosure and document the results of its inquiry.

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3124. Sending orders in bulk to foreign intermediaries

(1) A *Dealer Member's* policies and procedures for *best execution* must not include the practice of sending client orders in *listed securities* in bulk to a foreign intermediary for execution outside of Canada, without considering other liquidity sources, including liquidity sources within Canada.

3125. Fair pricing of over-the-counter securities

(1) A *Dealer Member* must not:

(i) purchase *over-the-counter securities* for its own account from a client or sell o*ver-the-counter securities* from its own account to a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:

(a) the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction,

(b) the expense involved in effecting the transaction,

(c) the fact that the *Dealer Member* is entitled to a profit, and

(d) the total dollar amount of the transaction, and

(ii) purchase or sell *over-the-counter securities* as agent for a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the following:

(a) the availability of the securities involved in the transaction,

(b) the expense of executing or filling the client order,

(c) the value of the services rendered by the *Dealer Member,* and

(d) the amount of any other compensation received or to be received by the *Dealer Member* in connection with the transaction.

3126. Review of best execution policies and procedures

(1) A *Dealer Member* must review its *best execution* policies and procedures at least annually, and whenever there is a material change to the trading environment or market structure that may impact a *Dealer Member's* ability to achieve *best execution* for its clients. The *Dealer Member* must consider whether more frequent reviews of its policies and procedures on *best execution* are necessary based on the size and scope its business.

(2) A *Dealer Member* must outline a process to review its policies and procedures on *best execution*, including a description of its governance structure, that specifies the following:

(i) who will conduct the review,

(ii) what information sources will be used,

(iii) the review procedures that will be employed,

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(iv) a description of any specific events that will trigger a review in addition to annual reviews,

(v) how the *Dealer Member* evaluates whether its policies and procedures for *best execution* are effective in achieving *best execution*, and

(vi) who will receive reports of the results.

(3) A *Dealer Member* must retain *records* of its reviews of its policies and procedures on *best execution*, including any material decisions made and any changes to them, in accordance with the record retention requirements in section 3803.

(4) A *Dealer Member* must promptly correct any deficiencies identified in the course of its review of its policies and procedures on *best execution*.

3127. Training

(1) A *Dealer Member* must have reasonable assurance its *employees* involved in the execution of client orders know and understand how to apply the *Dealer Member's* policies and procedures for *best execution* that they must follow.

3128. Compliance with the Order Protection Rule

(1) Despite any instruction or consent of the client, *best execution* of a client order for *listed security* is subject to compliance with the Order Protection Rule under Part 6 of the *Trading Rules* by:

(i) the *Marketplace* on which the order is entered, or

(ii) the *Dealer Member*, if the *Dealer Member* has marked the order as a directed-action order in accordance with Universal Market Integrity Rule 6.2.

3129. Disclosure of best execution policies

(1) A *Dealer Member* must disclose to its clients in writing the following:

(i) a description of the *Dealer Member's* obligation under section 3120,

(ii) a description of the factors the *Dealer Member* considers for the purpose of achieving *best execution*,

(iii) a description of the *Dealer Member's* order handling and routing practices intended to achieve *best execution* of client orders for listed securities, that include the following:

(a) the identity of any *Marketplace* to which the *Dealer Member* might route the client orders for handling or execution,

(b) the identity of each type of intermediary (domestic or foreign) to which the *Dealer Member* might route the client orders for handling or execution,

(c) the circumstances in which the *Dealer Member* might route client orders to a *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above,

(d) the circumstances, if any, under which the *Dealer Member* will move a client order entered on one *Marketplace* to another *Marketplace*,

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(e) the nature of any ownership by the *Dealer Member* or affiliated entity of the *Dealer Member* in, or arrangement with, any *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above, (f) if any client orders may be routed to an intermediary identified in sub-clause 3129(1)(iii)(b) above, pursuant to an arrangement with that intermediary, and (g) a statement that client orders will be subject to the order handling and routing practices of the intermediary identified in sub-clause 3129 (1)(iii)(b) above, (iv) a statement that the *Dealer Member* has reviewed the client order handling and routing practices of the intermediary identified pursuant to sub-clause 3129(1)(iii)(b) and is satisfied that it provides reasonable assurance of achieving *best execution* of client orders, (v) a statement as to: (a) whether fees are paid by the *Dealer Member* or payments or other compensation is received by the *Dealer Member* for a client order routed, or a trade resulting from a client order routed, to a *Marketplac*e or intermediary identified pursuant to sub-clause 3129(1)(iii)(a) or (b) above, (b) the circumstances under which the costs associated with the fees paid by *Dealer Member* or the compensation received by the *Dealer Member* will be passed on to the client, and (c) whether routing decisions are made based on fees paid by the *Dealer Member* or payments received by the *Dealer Member*, and, (vi) if providing market data as a service to clients, a description of any market data that is missing, including an explanation of the risks of trading with incomplete trading data. (2) A *Dealer Member* must provide separate disclosure for each class or type of client if the factors and order handling and routing practices used for such clients materially differ. (3) A *Dealer Member* must identify in the disclosure: (i) the class or type of client to which the disclosure applies, (ii) the class or type of securities to which the disclosure applies, and (iii) the date of the most recent changes to the disclosure. (4) A *Dealer Member* must make the disclosure: (i) publicly available on the *Dealer Member's* website and clearly identify to clients where on the website the disclosure can be found, or (ii) if the *Dealer Member* does not have a website, provide the disclosure in writing to the client upon account opening. (5) A *Dealer Member* must: (i) review the disclosure on a frequency that is reasonable in the circumstances, and at a

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minimum on an annual basis, and (ii) promptly update the disclosure to reflect the *Dealer Member's* current practices. (6) If a *Dealer Member* makes any change to the disclosure, the *Dealer Member* must: (i) for the website disclosure, identify and maintain the change on its website for a period of six months after the change has been made, or (ii) if the *Dealer Member* does not have a website, deliver the change to the client in writing no later than the 90th day after the change has been made. **3130. – 3199. Reserved.**

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RULE 3200

CLIENT ACCOUNTS

3201. Introduction

(1) Rule 3200 sets out *Dealer Members'* obligations when opening new accounts and maintaining existing accounts. Rule 3200 is divided into seven parts as follows:

Part A –Client Identification Requirements:
sets out *Dealer Members*' obligation to identify each client and to learn and remain informed of the essential facts about each client, account and order accepted.
[sections 3202 through 3205]

Part B – Requirements for Client Accounts:
sets out the general account opening and updating procedures that, subject to certain exceptions specified within the requirements, are applicable to all accounts. [sections 3210 through 3222]

Part C – Advisory Accounts:
sets out requirements that apply where the account is an *advisory account*.
[section 3230]

Part D – Order Execution Only Accounts:
sets out requirements that apply where the account is an *order execution only account*.
[sections 3240 and 3241]

Part E – Margin Accounts:
sets out requirements that apply where the account is a margin account.
[sections 3245 through 3247]

Part F – Additional Account Opening Requirements for Options, Futures Contract and Futures Contract Options Trading:
sets out additional account opening and updating procedures for *options*, *futures contracts* and *futures contract options* trading accounts.
[sections 3250 through 3260]

Part G – Discretionary Accounts and Managed Accounts:
sets out requirements that apply where the account is either a *discretionary account* or a *managed account*.
[sections 3270 through 3281]

(2) Rule 3200 applies to *Dealer Members* in addition to all other *IIROC requirements*. No part of Rule 3200, unless otherwise specified, shall be interpreted to grant a *Dealer Member* an exemption for complying with other *IIROC requirements*.

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Part A – CLIENT IDENTIFICATION REQUIREMENTS

3202. Identifying all new clients

(1) A *Dealer Member* must use due diligence to learn and remain informed of the essential facts relative to every order, account and client that is accepted, and to establish:

(i) the identity of every new client and, if there is any cause for concern, make inquiries as to the reputation of the client,

(ii) whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded, and

(iii) the creditworthiness of the client if the *Dealer Member* is financing the client's acquisition of a security.

(2) A *Dealer Member* must complete an account application for each new client in accordance with the requirements set out in Rule 3200.

(3) A *Dealer Member* must take reasonable steps to keep the information required under Part A of Rule 3200 current.

3203. Identifying partnerships or trusts

(1) When opening an initial account for a partnership or trust, a *Dealer Member* must:

(i) in the case of a trust, obtain the names and addresses of all trustees and all known beneficiaries and settlors of the trust,

(ii) establish the existence of the partnership or trust and the nature of its business,

(iii) in accordance with the requirements set out in section 3206 establish the identity of each *individual* that exercises control over the affairs of the partnership or trust, and

(iv) not open a partnership or trust account unless it first obtains the information referred to in clause 3203(1)(iii) and determines whether the *individuals* described in clause 3203(1)(iii) and, in the case of a trust, any of the known beneficiaries of more than 10% of the trust are insiders of a reporting issuer or any other issuer whose securities are publicly traded.

3204. Identifying corporations

(1) When opening an initial account for a corporation, a *Dealer Member* must:

(i) obtain the names of all directors of the corporation within 30 days of opening the account,

(ii) establish the existence of the corporation and the nature of its business,

(iii) in accordance with the requirements set out in section 3206, establish the identity of any *individual* who is the *beneficial owner*, or exercises direct or indirect control or direction, of 25% or more of the voting rights attached to the outstanding voting securities of the corporation, and

(iv) not open an account unless it identifies any such *individual beneficial owners* required under clause 3204(1)(iii) and determines whether one or more of them are insiders of a

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reporting issuer or any other issuer whose securities are publicly traded.

3205. Prohibition on shell banks

(1) A *Dealer Member* must not open or maintain an account for a shell bank, which is defined as a bank that does not have a physical presence in any country.

(2) Subsection 3205(1) does not apply to a bank that is an *affiliate* of a bank, loan or trust company, credit union, or other depository institution with a physical presence in Canada or in a foreign country in which the institution is subject to supervision by a banking or other similar regulatory authority.

3206. Establishing identity

(1) For each *beneficial owner* or *individual* described in subsections 3203(1)(iii) and 3204(1)(iii), the *Dealer Member* must establish the identity of such *individual* by using such methods that allow the *Dealer Member* to form a reasonable belief it knows the identity of the *individual* and by taking reasonable measures to confirm the accuracy of the information obtained.

(2) The *Dealer Member* shall keep a record that sets out the information obtained and the measures to confirm the accuracy of that information.

(3) The identity of such *individual* in subsection 3206(1) must be established as soon as practicable but not more than 30 days after opening the account.

(4) If the identity of such *individual* referred to in subsection 3206(1) cannot be established within 30 days of opening an account, the *Dealer Member* must restrict the account solely to liquidating trades, transfers, paying out funds or delivering securities. These account restrictions must remain in place until the *Dealer Member*establishes the *individual's* identity.

3207. Identification exceptions

(1) Sections 3203, 3204 and 3206 do not apply to:

(i) An entity registered under *securities law*s to:

(a) engage in the business of trading or advising in securities, or

(b) act as an investment fund manager,

(ii) an investment fund that is regulated under *securities laws*,

(iii) a Canadian financial institution (as described in sub-section 3207(2) below),

(iv) an *affiliate* of a Canadian financial institution (as described in sub-section 3207(2) below), if that *affiliate* carries out activities similar to that Canadian financial institution,

(v) a Schedule III bank,

(vi) a pension fund that is regulated by or under an Act of Parliament or the legislature of a province,

(vii) an entity that is a Canadian public body, or a corporation that has minimum net assets of $75 million on its last audited balance sheet and whose shares are traded on a Canadian

stock exchange or a stock exchange designated under section 262(1) of the Income Tax Act (Canada), and operates in a country that is a member of the Financial Action Task Force. For the purpose of clause 3207(1)(vii), the term "stock exchange" has the same interpretation as used in the Income Tax Act (Canada), or

(viii) an entity that is an *affiliate* of a public body or a corporation referred to in paragraph (vii) above and the financial statements of the entity are consolidated with the financial statements of that public body or corporation.

(2) A Canadian financial institution includes:

(i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act, or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada.

3208. – 3209. Reserved.

Part B – REQUIREMENTS FOR CLIENT ACCOUNTS

3210. Definitions

(1) The following term has the meaning set out below when used in Rule 3200:

"Client account records"	Any information, disclosure statement or agreement the *Dealer Member* is required to provide to or obtain from the client in accordance with *IIROC requirements* or *applicable laws* including, but not limited to, the following: (i) documentation supporting the conclusion that the client's identity has been verified, (ii) documentation supporting the account appropriateness assessment, (iii) know-your-client information collected in accordance with *IIROC requirements*, and (iv) the client's account application.

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3211. Account appropriateness

As described in IIROC Notice 19-0144, this amendment will become effective on September 1, 2020.

(1) Prior to opening an account for a *person*, the *Dealer Member* must determine that:

(i) the account is appropriate for the *person*, and

(ii) the scope of products and account types which the *person* would have access to within the account are appropriate for the *person*.

(2) A *Dealer Member* that has received approval from *IIROC* to offer *order execution only account* services to clients is not required to comply with clause 3211(1)(ii), provided that the *Dealer Member*:

(i) complies with all *IIROC requirements* applicable to offering *order execution only account* services, and

(ii) provides no recommendation to purchase, sell, hold or exchange any security, including any class of security, or security of a class of issuer.

(3) A *Dealer Member* is not required to comply with subsection 3211(1), provided that the *Dealer Member*:

(i) is a *carrying broker* and the account appropriateness obligation is carried out by the *introducing broker* in accordance with section 3211(1), or

(ii) carries client accounts for a portfolio manager and the account appropriateness is carried out by the portfolio manager in accordance with subsection 3211(1).

3212. Account information

(1) For each account, the *Dealer Member* must obtain and maintain the applicable *client account records*.

(2) For each *institutional client*, the *Dealer Member* must verify that the client qualifies as an *institutional client*.

(3) The *Dealer Member* must record the account number on the account application.

3213. Account opening policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address:

(i) collecting and maintaining accurate, complete and up-to-date information about each client and updating that information where there are material changes, and

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(ii) ensuring the completion of *client account records* when opening new accounts.

(2) A *Dealer Member* must:

(i) have policies and procedures to specifically address that documents supporting *client account records* are received within a reasonable period of time after opening an account,

(ii) have a system for recording pending account documentation and following up where it is not received within a reasonable time frame,

(iii) take specific action to obtain required documents that have not been received within 25 *business days* of opening the account, unless a shorter period is prescribed,

(iv) have policies and procedures independent of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* for verifying material changes to client information, which may include the receipt of a signed client acknowledgement of the updated information, and

(v) have a system in place to record the review and approval by the *designated Supervisor*.

3214. Opening new client accounts

(1) A *Dealer Member* may only assign an account number to a new account if the full and accurate name and address of the client who holds the account is known to the *Dealer Member*; the complete account application must be received no later than the following *business day*.

(2) The *designated Supervisor* must not approve a new account unless all *client account records* have been collected.

(3) A *designated Supervisor* must approve each new account no later than one *business day* after completing the initial trade for the account.

(4) A *Dealer Member* may use an alternative procedure to approve new accounts on an interim basis, provided the *designated Supervisor* provides final approval no later than one *business day* after the initial trade.

(5) If a designated Supervisor does not approve the new account after the initial trade, the Dealer Member must restrict the account to only liquidating trades, transfers out, paying out funds or delivering securities to the client. These account restrictions must remain in place until the designated Supervisor has provided final approval of the account.

(6) Before opening an account for an *employee* of another *Dealer Member*, the *Dealer Member* must obtain written approval from the other *Dealer Member*, and must designate the account as *non-client account*.

3215. Updating client accounts

(1) A *Dealer Member* must ensure that the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* assigned to the account, updates the account information on a timely basis, to reflect any material changes to client information.

(2) The *Dealer Member's* policies and procedures must specifically address that any material changes

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to client information are approved in the same manner that an account application is approved for a new account.

(3) If a client's *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* changes, the *Dealer Member's* procedures must require that:

(i) the new *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* verify the client information in the account application with the client as soon as practicable to ensure the information is correct, and

(ii) the new *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* and the *designated Supervisor* acknowledge, in writing, that the account application was reviewed and, if necessary, updated.

(4) If the client's account application was approved within the past two years, the *Dealer Member* may use a copy of a client's current account application, but must have the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* and their *Supervisor* initial any changes.

(5) The *Dealer Member* must restrict the access of *Registered Representatives, Portfolio Managers* and *Associate Portfolio Managers* and other *persons* to its systems in such a manner so as to ensure that material client information cannot be changed without the required approval.

3216. Relationship Disclosure

(1) Objective of relationship disclosure requirements

This section establishes the minimum requirements for the provision of relationship disclosure information to *retail clients*. *Dealer Members* are not required to provide relationship disclosure to *institutional clients*.

Relationship disclosure information is a written communication from the *Dealer Member* to the client describing the products and services offered by the *Dealer Member*, the nature of the account and the manner in which the account will operate and the responsibilities of the *Dealer Member* to the client.

(2) Frequency of provision of relationship disclosure information

Relationship disclosure information must be provided to each *retail client*:

(i) at the time of opening an account or accounts, and

(ii) when there is a significant change to the relationship disclosure information previously provided to the client.

(3) Form of relationship disclosure information

(i) *Dealer Members* have the choice of providing customized relationship disclosure information to each client, or appropriate standardized relationship disclosure information to separate classes of clients.

(ii) Where standardized relationship disclosure information is provided to the client, the *Dealer*

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Member must ensure that the disclosure is appropriate for the client. The relationship disclosure information must accurately describe the account relationship the client has entered into with the *Dealer Member*.

(iii) Where a client has more than one account, combined relationship disclosure information may be provided to the client as long as the *Dealer Member* determines that the combined disclosure is appropriate for the client in light of the relevant circumstances, including the nature of the various accounts.

(4) Format of relationship disclosure information

(i) The format of the relationship disclosure information is not prescribed but must:

(a) be provided to the client in writing,

(b) be written in plain language that communicates the information to the client in a meaningful way, and

(c) include all the required content set out in subsection 3216(5), or, where specific information has otherwise been provided to the client by the *Dealer Member*, a general description and a reference to the other disclosure materials containing the required information.

(ii) *Dealer Members* may choose to provide the relationship disclosure information as a separate document or to integrate it with other account opening materials.

(5) Content of relationship disclosure information

(i) The relationship disclosure information must be entitled "Relationship Disclosure".

(ii) Subject to clauses 3216(5)(iii) and 3216(5)(iv), the relationship disclosure information must contain the following:

(a) a description of the types of products and services offered by the *Dealer Member*,

(b) a description of the account relationship that states:

(I) whether the account opened is an *advisory account*, a *managed account* or an *order execution only account*,

(II) whether the client is responsible for making investment decisions and, if so, the manner in which the client will instruct the *Dealer Member* to effect transactions for the account, and

(III) whether recommendations or advice will be provided to the client and, if so, the responsibilities and obligations of the *Dealer Member* and its *employees* for any recommendations or advice provided to the client,

(c) a description of the process used by the *Dealer Member* to assess investment suitability, including:

(I) a description of the approach used by the *Dealer Member* to assess the client's financial situation, investment objectives and time horizon, risk tolerance and

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investment knowledge, (II) a statement that the client will be provided with a copy of the "know-your-client" information that is obtained from the client and documented at time of account opening and when there are material changes to the information, (III) a statement indicating that the *Dealer Member* will assess the suitability of investments in the client's account: (A) before a trade is accepted, (B) before a recommendation is made, (C) when securities are transferred or deposited into the account, (D) when there is a change in the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* responsible for the account, or (E) when there is a material change to the client's "know-your-client" information, and (IV) a statement indicating whether or not the suitability of the investments held in the account will be reviewed in the case of other triggering events not described in paragraph 3216(5)(ii)(c)(III) and, in particular, in the event of significant market fluctuations, (d) a description of the client account reporting that the *Dealer Member* will provide, including: (I) a statement indicating when trade confirmations and account statements will be sent to the client, (II) a description of the *Dealer Member's* minimum obligations to provide performance information to the client and a statement indicating when account position cost and account activity information will be provided to the client, and (III) a statement indicating whether or not the provision of account percentage return information will be an option available to the client as part of the account service offering, (e) a statement indicating any *Dealer Member* and *Approved Person* conflicts of interest, and a statement that any existing and potential material conflict of interest situations which are not avoided, will be disclosed to the client as they arise, (f) a description of all account service fees and charges the client will or may incur relating to the general operation of the account, (g) a description of all charges the client will or may incur in making, disposing and holding investments by type of investment product, (h) a listing of the account documents required to be provided to the client with respect

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to the account,

(i) a description of the *Dealer Member's* complaint handling procedures and a statement that the client will be provided with a copy of an *IIROC* approved complaint handling process brochure at time of account opening, and

(j) a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be made available to the client by the *Dealer Member*.

(iii) For *order execution only accounts*, the *Dealer Member* does not have to provide the relationship disclosure information required under sub-clause 3216(5)(ii)(c), provided that disclosure is made in compliance with the requirements in section 3241.

(iv) For *managed accounts*, the required disclosure referred to in paragraph 3216(5)(ii)(c)(III) does not apply and the relationship disclosure information provided by the *Dealer Member* must include a statement that ongoing suitability is provided as part of the *managed account* services.

(6) Review of relationship disclosure materials

(i) The relationship disclosure information provided to the client must be approved by a partner, *Director*, *officer* or *designated Supervisor*. This approval must occur regardless of the form the relationship disclosure information takes. If the document is a standardized document, the *designated Supervisor* must ensure that the correct document is used in each client circumstance. If the relationship disclosure information is a customized for each client, the *designated Supervisor* must approve each document.

(7) Audit trail and client acknowledgement requirements

(i) The *Dealer Member* must maintain an audit trail to evidence that account related documents required by *IIROC requirements* have been provided to the client.

(ii) *Dealer Members* must obtain their clients' acknowledgement of receipt of the "know-your-client" information. A client signature acknowledging receipt is preferred, but not required. If the client's signature is not obtained, another acceptable method of documenting the client's acknowledgement of receipt of this information must be used.

3217. Leverage risk disclosure statement

(1) When opening a new account for a *retail client*, prior to making an initial recommendation to a *retail client* to purchase securities using borrowed money, or when first becoming aware of a *retail client's* intention to purchase securities using borrowed money, a *Dealer Member* must:

(i) provide each *retail client* with a copy of the leverage risk disclosure statement, and

(ii) obtain the *retail client's* positive acknowledgement that they are in receipt of the disclosure statement referred to in clause 3217(1)(i).

(2) A *Dealer Member* is not required to comply with subsection 3217(1) where it has provided the *retail client* with a leverage risk disclosure statement in accordance with subsection 3217(1)

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within the last six months.

(3) A leverage risk disclosure statement must be in substantially the following words:

"Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines."

3218. Pre-trade disclosure of charges

(1) Before a *Dealer Member* accepts an instruction from a *retail client* to purchase or sell a security in an account other than a *managed account*, the *Dealer Member* must disclose to the client:

(i) the charges the client will be required to pay, directly or indirectly, in respect of the purchase or sale, or a reasonable estimate if the actual amount of the charges is not known to the firm at the time of disclosure,

(ii) in the case of a purchase to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply, and

(iii) whether the firm will receive trailing commissions in respect of the security.

(2) Subsection 3218(1) does not apply to a *Dealer Member* in respect of an instruction involving:

(i) a client for whom the *Dealer Member* purchases or sells securities only as directed by a registered adviser acting for the client.

3219. Client mail

(1) A *Dealer Member's* hold-mail account procedures for *retail clients* must, at a minimum, include the following provisions:

(i) a requirement that the *Dealer Member* obtain written authorization from the client to "hold mail",

(ii) a requirement that limits the length of time that a "hold mail" order may remain in force for no longer than six months, in any 12 month period, and

(iii) a rule requiring the control and regular review of "hold mail" accounts by a *Supervisor.*

(2) Notwithstanding clause 3219(1)(ii), a longer period may be used if:

(i) it is permitted by the *Dealer Member's* policies and procedures,

(ii) the *Dealer Member* has policies and procedures that specifically address the close supervision of such accounts, and

(iii) the appropriate *Supervisor* pre-approves the extended period.

(3) A *Dealer Member's* returned mail procedures for *retail clients* must at a minimum include the following provisions:

(i) a rule requiring the control and investigation by a *person* independent of the sales function, but may be located within a *business location,* and

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(ii) a rule requiring that a record of all investigations and their results be maintained.

3220. Record keeping

(1) A *Dealer Member* must maintain *records* for each account that includes:

(i) *client account records*,

(ii) the name and address of the account guarantor, if applicable, and

(iii) a signed trading authorization from the account holder authorizing a *person*, other than the account holder, to give trading instructions for the account, if applicable.

(2) The *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* responsible for an account must retain a current copy of each account application. This requirement can be satisfied by a *Dealer Member* maintaining the information in an electronic application accessible to the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager*.

(3) A *Dealer Member* must maintain all *client account records* in accordance with the record retention requirements in section 3803.

As described in IIROC Notice 19-0144, this amendment will become effective on September 1, 2020.

(4) A *Dealer Member* must maintain a record of *persons* with trading authorization over one or more client accounts and must ensure that such record is sufficient to allow the *Dealer Member* to identify any *persons* with trading authorization for multiple clients or client accounts.

3221. Prohibition against discretionary trading

(1) For the purposes of Rule 3200, a *Dealer Member* must ensure that *individuals* trading on its behalf do not engage in any discretionary trading, including time and price discretion, unless discretion is exercised in a *discretionary account* or *managed account* in accordance with the requirements set out in Part G of Rule 3200.

(2) Subsection 3221(1) does not apply to time and price discretion exercised in fulfilling the Dealer Member's best execution obligation relating to a client order for a specific amount or a specific security.

3222. – 3229. Reserved.

Part C – ADVISORY ACCOUNTS

3230. Rules applicable to advisory accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that opens an *advisory account* for a *retail client*

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must comply with the requirements in Parts A through C of Rule 3200, and if applicable, Parts E through G of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens an *advisory account* for an *institutional client* must:

(i) comply with the requirements in Parts A through C of Rule 3200, and if applicable, Parts E through G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3231. – 3239. Reserved.

Part D – ORDER EXECUTION ONLY ACCOUNTS

3240. Rules applicable to order execution only accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that opens an *order execution only account* for a *retail client* must comply with the requirements in Parts A, B and D of Rule 3200, and if applicable, Parts E and F of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens an *order execution only account* for an *institutional client* must:

(i) comply with the requirements in Parts A, B and D of Rule 3200, and if applicable, Parts E and F of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3241. Order execution only account services

(1) A *Dealer Member* approved by *IIROC* to provide *order execution only account* services within either a separate legal entity or a separate business unit, must:

(i) implement the policies and procedures required by *IIROC requirements*, and

(ii) not allow its *order execution only account* service clients to:

(a) use their own automated order system, as defined in *securities laws*, 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 *IIROC* from time to time.

(2) A *Dealer Member* approved by *IIROC* to provide *order execution only account* services must, prior to opening an *order execution only account*:

(i) provide the following written disclosures to the client:

(a) a statement confirming that the *Dealer Member* will not provide any

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recommendations to the client and that the client is solely responsible for making all investment decisions in the *order execution only account*, (b) a statement confirming that the *Dealer Member* will not be responsible for making a suitability determination for the client and, in particular, that the *Dealer Member* will not consider the client's current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance, the client account's investment portfolio composition and risk level, nor other similar factors, and (c) a statement confirming that the *Dealer Member* will not be responsible for making a determination that the products and account types offered by the *Dealer Member* in the *order execution only account* are appropriate for the client, and (ii) obtain a positive acknowledgement from the client, and each beneficial owner of the account, confirming that the client, and each beneficial owner, has received and understood the disclosures described in clause 3241(2)(i). (3) The *Dealer Member* must maintain, in an accessible form, a record of the acknowledgement obtained under clause 3241(2)(ii) in the following form: (i) the client's signature or initials on a new client form or other document, specifically related to the disclosure and acknowledgement, (ii) an electronic acknowledgement attached to the disclosure and acknowledgement text, or (iii) a tape recording of a verbal acknowledgement. (4) The *Dealer Member* must ensure that a client identifier is assigned to each client that trades on a *Marketplace* for which *IIROC* is the regulation services provider: (i) whose trading activity on *Marketplaces* for which *IIROC* is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month, (ii) that is not an *individual* and is registered as a dealer or adviser in accordance with *securities laws*, or (iii) that is not an *individual* and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser. (5) The *Dealer Member* must provide each client identifier assigned pursuant to subsection 3241(4) and the name of the corresponding client to *IIROC*. (6) The *Dealer Member* must ensure that each order entered on a *Marketplace* for which *IIROC* is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to subsection 3241(4) contains the client identifier assigned to that client. (7) A *Dealer Member* approved by *IIROC* to provide *order execution only account* services within either a separate legal entity or a separate business unit, must ensure that: (i) its order-entry systems and records are capable of labeling all account documentation, including monthly statements and confirmations, as "order execution only accounts" or other similar phrase, and

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(ii) the client monthly statements of its *order execution only account* services are not consolidated with any other client account statements, including those of any other business unit of the *Dealer Member* or of the *Dealer Member* itself.

3242. – 3244. Reserved.

Part E – MARGIN ACCOUNTS

3245. Rules applicable to margin accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that opens a margin account for a *retail client* must comply with the requirements in Parts A, B and E of Rule 3200, and if applicable, Parts C, D, F and G of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens a margin account for an *institutional client* must:

(i) comply with the requirements in Parts A, B and E of Rule 3200, and if applicable, Parts C, D, F and G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

3246. Margin requirements - when to extend margin to clients

(1) In deciding whether to allow a client to trade on margin, a *Dealer Member* must ensure that the client is aware of the risks and benefits associated with trading on margin.

3247. Margin account agreement

(1) Prior to opening a margin account, a *Dealer Member* must:

(i) deliver a margin account agreement to the client, and

(ii) obtain a copy of the margin account agreement signed by the client.

(2) A *Dealer Member's* margin account agreement must, at a minimum, contain a written description of the following rights and obligations:

(i) the client's obligation to pay their indebtedness to the *Dealer Member* and to maintain adequate margin,

(ii) the client's obligation to pay interest on debit balances in their account,

(iii) the *Dealer Member's* right to raise money on and pledge assets held in the client's account,

(iv) the extent to which the *Dealer Member* has the right to use *free credit balances* in the client's account for its own business or to cover debits in the same or other accounts,

(v) the *Dealer Member's* right to sell assets in the client's account and make purchases to cover short sales. If the client requires prior notice, the *Dealer Member* must set out the nature of

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the notice and the client's obligations to remedy any deficiency,

(vi) the extent of the *Dealer Member's* right, if any, to use a security in the client's account for delivery against a short sale,

(vii) the extent to which the *Dealer Member* has the right, if any, to use a security in the client's account for delivery against a short sale in an account owned or controlled by the Dealer Member, a partner or *Director*,

(viii) the extent of the *Dealer Member's* right to use assets in the client's account and to hold them as collateral for the client's debt, and

(ix) the *Dealer Member's* obligation to carry out all transactions in accordance with *IIROC requirements* and, where applicable, the requirements of the marketplace on which the transaction has been executed.

3248. – 3249. Reserved.

Part F – ADDITIONAL ACCOUNT OPENING AND UPDATING PROCEDURES FOR OPTIONS, FUTURES CONTRACT AND FUTURES CONTRACT OPTIONS TRADING

3250. Rules applicable to options, futures contracts and futures contract options trading accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that opens a *options*, *futures contract* and *futures contract options* trading accounts for a *retail client* must comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens a *options*, *futures contract* and *futures contract options* trading accounts for an *institutional client* must:

(i) comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

(3) A *Dealer Member* must ensure that *persons* trading on its behalf or advising clients in *options, futures contracts* and *futures contract options* trading accounts meet minimum proficiency requirements.

3251. Reserved.

OPTIONS ACCOUNTS

3252. Additional requirements when opening an options account

(1) Before entering an initial *options* trade in an account, a *Dealer Member* must:

(i) obtain a completed *options* account application from the client,

(ii) obtain a signed *options* trading agreement from the client,

(iii) provide the client with the most recent *options* disclosure statement or similar disclosure

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document, and

(iv) record the *designated Supervisor's* approval of each client account in writing.

(2) The *designated Supervisor* must determine whether the risk characteristics of the strategies the client intends to use are appropriate for the client and in keeping with his or her investment objectives and risk tolerance. If they are not, the *designated Supervisor* should restrict the account from using inappropriate strategies and note on the *option* account approval any trading restrictions imposed and communicate those restrictions to the *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* assigned to the account.

3253. Options trading agreement

(1) A *Dealer Member's options* trading agreement must define the rights and obligations of the *Dealer Member* and the client and, at a minimum, must include the following:

(i) the time periods during which the *Dealer Member* accepts orders for execution,

(ii) the *Dealer Member's* right to exercise discretion in accepting orders,

(iii) the *Dealer Member's* obligations when errors and omissions occur,

(iv) the method for distributing exercise assignment notices,

(v) the *Dealer Member's* deadlines for a client to submit an exercise notice,

(vi) a notice that:

(a) the *Dealer Member* may set maximum limits on short positions,

(b) the *Dealer Member* may apply cash-only terms during the last 10 days before expiry, and

(c) *IIROC* may impose other rules affecting existing or subsequent transactions.

(vii) the client's obligation to instruct the *Dealer Member* to close positions before expiry,

(viii) the client's obligation to comply with *IIROC requirements* and any entity's requirements through which the *options* is traded, cleared, or issued, including, without limitation, complying with position and exercise limits,

(ix) the client's positive acknowledgement of receiving the current *options* disclosure statement, and

(x) any other matter required by an *options* trading, clearing or issuing entity.

3254. Letter of undertaking

(1) Instead of an *options* trading agreement, a *Dealer Member* may obtain a letter of undertaking for accounts where the client is:

(i) an *acceptable institution,*

(ii) an *acceptable counterparty,* or

(iii) a *regulated entity*.

(2) The letter of undertaking must state that the client agrees to abide by *IIROC's requirements* and the requirements of any entity through which *options* are traded or, cleared or issued, including,

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compliance with position and exercise limits.

3255. Options disclosure statement

(1) A *Dealer Member* must:

(i) provide each *options* client with the current *options* disclosure statement or other similar document, approved by *IIROC* before accepting an initial *options* order from the client,

(ii) obtain the client's positive acknowledgement of receipt of the *options* disclosure statement or similar document described in clause 3255(1)(i),

(iii) provide each *options* client with any amendments to the *options* disclosure statement or similar document, as approved by *IIROC*, and

(iv) maintain a record of the names and addresses of all clients to whom it has provided an *options* disclosure statement, or similar document, including any amendments and the date on which they were provided.

3256. Position and exercise limits

(1) A *Dealer Member* must comply with the requirements of any entity through which it trades or clears an *option*.

(2) A *Dealer Member* must comply with the position and exercise limits that apply under subsection 3256(1).

FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS ACCOUNTS

3257. Additional requirements when opening a futures contract or futures contract option account

(1) Before entering an initial *futures contract* or *futures contract option* trade in an account, a *Dealer Member* must:

(i) obtain a completed *futures contract* account application or *futures contract options* account application from the client,

(ii) obtain a signed *futures contract* or *futures contract option* trading agreement from the client,

(iii) provide the client with the most recent futures disclosure statement or similar statement, and

(iv) record the *designated Supervisor's* approval in writing.

(2) The *designated Supervisor* must determine whether the risk characteristics of the strategies the client intends to use are appropriate for the client and in keeping with his or her investment objectives and risk tolerance. If they are not, the *designated Supervisor* should restrict the account from using inappropriate strategies and note, on the *futures contract* account application or the *futures contract option* application, any trading restrictions imposed and communicate those restrictions to the *Registered Representative*, *Portfolio Manager or Associate Portfolio Manager* assigned to the account.

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3258. Futures contract and futures contract option trading agreement

(1) A *Dealer Member's futures contract* and *futures contract option* trading agreement must define the rights and obligations of the *Dealer Member* and the client and, at a minimum, must include the following:

(i) the time periods during which the *Dealer Member* accepts orders for execution,

(ii) the *Dealer Member's* right to exercise discretion in accepting orders,

(iii) the *Dealer Member's* obligations when errors or omissions occur,

(iv) the method for distributing exercise assignment notices,

(v) the *Dealer Member's* deadlines for a client to submit an exercise notice,

(vi) the *Dealer Member's* right to impose trading limits or closeout positions under specified conditions,

(vii) for *futures contract options*, the method for distributing exercise assignment notices and the client's obligation to instruct the *Dealer Member* to close out contracts before the expiry date,

(viii) the conditions under which the *Dealer Member* may apply the client's funds, securities or other property in the account or any other accounts of the client to satisfy outstanding debts or margin calls,

(ix) the extent of the *Dealer Member's* right to use *free credit balances* in the client's account for its own business or to cover debits in the same or other accounts,

(x) the requirement for the *Dealer Member* to obtain client consent before the *Dealer Member* may take the other side to the client's transaction, and whether the client provides such consent,

(xi) the *Dealer Member's* right to raise money on and pledge assets held in the client's account,

(xii) the extent of the *Dealer Member's* right to deal with securities and other assets in the client's account and to hold them as collateral against the client's debts,

(xiii) the *Dealer Member's* right to provide information to regulators regarding reporting and position limits,

(xiv) the client's obligations to comply with reporting, position limit and exercise limit requirements that the relevant futures exchange or its clearing house establishes,

(xv) a statement that the *Dealer Member* requires a client to maintain a minimum margin that is the greater of:

(a) the amount the futures exchange or clearing house prescribes,

(b) *IIROC's requirements*, or

(c) the *Dealer Member's* requirements,

(xvi) the client's obligation to maintain adequate margin and security and to pay any debts to the *Dealer Member*,

(xvii) a statement that the *Dealer Member* may commingle and use the client's margin funds or

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property in its own business,

(xviii) the client's obligations to pay commission, if any,

(xix) the client's obligation to pay interest on debit balances in the account, if any,

(xx) whether any discretionary authority is given to the *Dealer Member*, and if so, the discretionary authority must be clearly explained and specifically confirmed by the client, unless such discretionary authority is provided in another document. The authority must be consistent with the requirements contained within Part G of Rule 3200,

(xxi) the client's positive acknowledgement that they have received the futures disclosure statement, and

(xxii) other than for a hedging account, a risk disclosure limit for futures trading indicating the maximum amount of cumulative losses the client can sustain which can be:

(a) on a life time basis, or

(b) on an annual basis, provided that it is updated annually.

3259. Letters of undertaking

(1) Instead of a *futures contract* or *futures contract option* trading agreement, a *Dealer Member* may obtain a letter of undertaking for accounts where the client is:

(i) an *acceptable institution*,

(ii) an *acceptable counterparty*,

(iii) a *regulated entity,* or

(iv) another adviser registered under any *applicable laws* relating to trading or advising in respect of *futures contracts* or *futures contract options*.

(2) The letter of undertaking must state that:

(i) the client agrees to abide by *IIROC's requirements* and the requirements of any entity through which *futures contracts* or *futures contract options* are traded or cleared, including complying with position and exercise limits, and

(ii) if the client has an account that is charged interest on a debit balance, the conditions under which transfers of the client's funds, securities or other property may be made between accounts, unless these conditions are acknowledged by the client in another document.

3260. Futures disclosure statement

(1) A *Dealer Member* must:

(i) provide the client with the current futures disclosure statement or other similar document, approved by *IIROC*, before accepting a *futures contract* or *futures contract options* account,

(ii) obtain the client's positive acknowledgement of receipt of the futures disclosure statement or similar document described in clause 3260(1)(i),

(iii) provide each *futures contract* or *futures contract options* client with any amendments to the

futures disclosure statement or similar document, approved by *IIROC*, and

(iv) maintain *records* showing the names and addresses of all clients to whom it has sent a futures disclosure statement or similar documents, including any amendments and the date on which they were provided.

3261. – 3269. Reserved.

Part G – DISCRETIONARY ACCOUNTS AND MANAGED ACCOUNTS

3270. Definitions

(1) The following term has the meaning set out below when used in sections 3271 through 3281:

"responsible person"	A partner, *Director*, *officer*, *employee* or *agent* of a *Dealer Member* who: (i) exercises discretionary authority over the account of a client or approves discretionary orders for an account when exercising such discretion or giving such approval pursuant to sections 3273 through 3276, or (ii) participates in the formulation of, or has prior access information regarding investment decisions made on behalf of or advice given to a *managed account* but does not include a sub-adviser under section 3279.

3271. Rules applicable to discretionary accounts and managed accounts

(1) For the purposes of Rule 3200, a *Dealer Member* that accepts a *discretionary account* or a *managed account* for a *retail client* must comply with the requirements in Parts A, B and G of Rule 3200, and if applicable, Parts C, E and F of Rule 3200.

(2) For the purposes of Rule 3200, a *Dealer Member* that opens a *discretionary account* or a *managed account* for an *institutional client* must:

(i) comply with the requirements in Parts A, B and G of Rule 3200, and if applicable, Parts C, E and F of Rule 3200, with the exception of sections 3216 through 3219, and

(ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.

(3) The *Dealer Member* must ensure that *individuals* trading or advising on its behalf, in *discretionary accounts* or *managed accounts*, meet the applicable proficiency requirements.

3272. Reserved.

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DISCRETIONARY ACCOUNTS

3273. Accepting a discretionary account

(1) To accept *discretionary accounts*:

(i) the *Dealer Member* must designate one or more *designated Supervisors*, who meet the proficiency requirements set out in Rule 2600, to be responsible for the *discretionary accounts*,

(ii) the *Dealer Member*'s policies and procedures must specifically address the supervision and operation of *discretionary accounts* in accordance with Rule 3900,

(iii) the *Dealer Member* must identify *discretionary accounts* in its books and *records* to allow supervision of the *discretionary accounts* in accordance with Rule 3900,

(iv) the *Dealer Member* must enter into a *discretionary account* agreement with the client prior to accepting the account as a *discretionary account*,

(v) the *designated Supervisor* must approve the account as a *discretionary account* and approve the *discretionary account* agreement signed by the client, and

(vi) the *Dealer Member* must maintain a record of the *designated Supervisor's* approval in accordance with the record retention requirements in section 3803.

3274. Discretionary account agreement

(1) A *discretionary account* agreement must:

(i) define the extent of the discretionary authority given to the *Dealer Member* by the client,

(ii) include any restrictions on the discretionary authority,

(iii) have a maximum term of no longer than 12 months,

(iv) not be renewable, and

(v) set out the terms of termination in accordance with subsection 3274(2).

(2) A *discretionary account* agreement may only be terminated by written notice:

(i) by the client, effective when received by the *Dealer Member*, except for orders entered prior to receipt of the notice, or

(ii) by the *Dealer Member*, effective not less than 30 days from the date the *Dealer Member* delivered the notice to the client.

3275. Persons authorized to affect discretionary trades

(1) A *Registered Representative* may only be authorized to affect trades for a *discretionary account* if:

(i) the *Registered Representative* has at least two years of active experience in trading, advising or performing analysis with respect to all types of products that are to be traded on a discretionary basis, and

(ii) the *discretionary account* is maintained at the *Dealer Member* on whose behalf the *Registered Representative,* conducts business.

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3276. Conflicts of interest

(1) A *discretionary account* must not hold any publicly traded securities of the *Dealer Member* or its *affiliates.*

(2) A *responsible person* or a *Dealer Member* must not trade for his or her or the *Dealer Member's* own account, or knowingly permit or arrange any *associate* or *affiliate* to trade, in reliance upon information relating to trades made or to be made in a *discretionary account*.

(3) A *responsible person* or a *Dealer Member* must not, without the prior written consent of the client, knowingly allow a *discretionary account* to:

(i) invest in a security or *derivative* of a security of an issuer if the *individuals* authorized under subsection 3275(1) to deal with *discretionary accounts* is an officer or director of the issuer, unless the position with the issuer is disclosed to the client, or

(ii) invest in new issues or secondary offerings underwritten by the *Dealer Member*.

(4) A *responsible person* or a *Dealer Member* must not allow a *discretionary account* to provide a guarantee or loan to a *responsible person* or an *associate* of a *responsible person*.

MANAGED ACCOUNTS

3277. Opening a managed account

(1) To accept *managed accounts*:

(i) the *Dealer Member* must designate a *Supervisor* to be responsible for *managed accounts*,

(ii) the *Dealer Member*'s policies and procedures must specifically address the supervision and operation of *managed accounts* in accordance with *IIROC requirements*,

(iii) the *Dealer Member* must enter into a *managed account* agreement with the client prior to opening a *managed account*,

(iv) the *designated Supervisor* must approve each *managed account* in writing,

(v) the *Dealer Member* must retain a record of the *designated Supervisor's* approval, and

(vi) the *Dealer Member* must provide the client with a copy of its policy ensuring fair allocation of investment opportunities.

3278. Managed account agreement

(1) The *managed account* agreement must:

(i) describe or refer to the client's current financial situation, investment knowledge, time horizon, investment objectives and risk tolerance that are applicable to the *managed account* or accounts,

(ii) describe any investment restrictions imposed by the client, where permitted by the *Dealer Member*, and

(iii) set out the terms of termination in accordance with subsection 3278(2).

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(2) The *managed account* agreement may only be terminated by written notice:

(i) by the client, effective on receipt by the *Dealer Member*, except for transactions entered prior to receipt of the notice, or

(ii) by the *Dealer Member*, effective not less than 30 days from the date the *Dealer Member* delivered the notice to the client.

3279. Persons authorized to deal with managed accounts

(1) A *Dealer Member* must designate an *individual* authorized to deal with *managed accounts* who is:

(i) a *Portfolio Manager*,

(ii) an *Associate Portfolio Manager*, or

(iii) a sub-advisor with whom the *Dealer Member* has entered into a written sub-advisor agreement.

(2) The sub-advisor in clause 3279(1)(iii) must be:

(i) registered or licensed, or operating under an exemption from registration or licensing, under *securities laws* of the jurisdiction in which its head office or principle place of business is located, that permits it to carry on *managed account* activities, or its equivalent, in such jurisdiction, and

(ii) subject to legislation or regulations containing conflict of interest provisions at least equivalent to those set out in section 3280 or has entered into an agreement with the *Dealer Member* that it will comply with section 3280.

3280. Conflicts of interest

(1) A *responsible person* or a *Dealer Member* must not trade for his or her or the *Dealer Member's* own account, or knowingly permit or arrange any *associate* or *affiliate* to trade, in reliance upon information relating to trades made or to be made in a *managed account*.

(2) A *responsible person* or a *Dealer Member* must not, without the prior written consent of the client, knowingly allow a *managed account* to:

(i) invest in a security or *derivative* of a security of an issuer that is related or connected to a *responsible person* or to the *Dealer Member*,

(ii) invest in a security or *derivative* of a security of an issuer if the *individuals* authorized under subsection 3279(1) to deal with *managed accounts* is an officer or director of the issuer, unless the position with the issuer is disclosed to the client, or

(iii) invest in new issues or secondary offerings underwritten by the *Dealer Member*.

(3) A *responsible person* or a *Dealer Member* must not knowingly cause any *managed account* to:

(i) purchase or sell a security or *derivative* of a security of an issuer from or to the account of a *Portfolio Manager*, an *Associate Portfolio Manager* or an *associate* of a *Portfolio Manager* or an *associate* of an *Associate Portfolio Manager,*

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(ii) purchase or sell a security or *derivative* of a security of an issuer from or to an investment fund for which a *responsible person* acts as an adviser, or (iii) provide a guarantee or loan to a *responsible person* or an *associate* of a *responsible person*. (4) A *Dealer Member* must fairly allocate investment opportunities among its *managed accounts.* **3281. Fees and remuneration** (1) A *Dealer Member* may not charge a client directly for services rendered to the *managed account*, that is: (i) based upon the volume or value of transactions in the account initiated for the account, or (ii) contingent upon profit or performance of the client's account, unless the client has provided the *Dealer Member* with a written agreement which sets out the manner in which the fees may be charged based on volume or value of transactions or contingent upon profit or performance. (2) A *Dealer Member* must not compensate a *person* referred to in section 3279, on the basis of the value or volume of transactions in the account. **3282. - 3399. Reserved.**

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RULE 3400

SUITABILITY

3401. Introduction

(1) Rule 3400 sets out a *Dealer Member's* suitability obligations in dealing with clients.

3402. Retail client suitability requirements

(1) When a suitability determination must be made.

Subject to the applicable exemptions and exceptions set out in section 3404, a suitability determination must be made for a *retail client*:

(i) before any order is accepted from the client,

(ii) before a recommendation is made to the client to purchase, sell, exchange or hold a security, and

(iii) whenever one or more of the following non-trading related triggering events occurs:

(a) securities are received into or delivered out of the client's account by way of deposit, withdrawal or transfer,

(b) there is a change in the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* responsible for the account, or

(c) there is 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*.

(2) How a suitability determination must be made.

When a suitability determination must be made for a *retail client* pursuant to subsection 3402(1), a *Dealer Member* shall use due diligence to ensure that:

(i) before any order is accepted from the client, the order and the client's investment portfolio that would result from accepting the order are suitable,

(ii) before a recommendation is made to the client to purchase, sell, exchange or hold a security, the recommendation and the client's investment portfolio that would result from acting upon the recommendation are suitable, or

(iii) whenever one or more non trading related triggering events listed in clause 3402(1)(iii) occurs, the client's investment portfolio continues to be suitable,

based on factors including the client's current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the client's current investment portfolio composition and risk level.

(3) Required actions once a suitability determination has been made.

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Once each suitability determination has been made, the *Dealer Member* must use due diligence to ensure that:

(i) the client receives appropriate advice in response to each suitability review that is conducted, and

(ii) where an order received from the client is determined to not be suitable, the *Dealer Member*:

(a) must advise the client against proceeding with the order, and

(b) must not proceed with the order unless the client instructs the *Dealer Member* to proceed notwithstanding the *Dealer Member's* determination that the order is not suitable.

3403. Institutional client suitability requirements

(1) When a suitability determination must be made.

Subject to the applicable exemptions and exceptions set out in section 3404, a suitability determination must be made for an *institutional client*:

(i) before any order is accepted from the client, and

(ii) before a recommendation is made to the client to purchase, sell, exchange or hold a security.

(2) How a suitability determination must be made.

When a suitability determination must be made for an *institutional client* pursuant to subsection 3403(1), a *Dealer Member* must make a determination whether the client is sufficiently sophisticated and capable of making its own investment decisions in order to determine the level of suitability owed to that *institutional client*. In making a determination whether a client is capable of independently evaluating investment risk and is exercising independent judgment, relevant considerations include:

(i) any written or oral understanding that exists between a *Dealer Member* and its client regarding the client's reliance on the *Dealer Member*,

(ii) the presence or absence of a pattern of acceptance of the *Dealer Member's* recommendations,

(iii) the use by a client of ideas, suggestions, market views and information obtained from other *Dealer Members*, market professionals or issuers particularly those relating to the same type of securities,

(iv) the use of one or more investment dealers, portfolio managers or other third party advisors,

(v) the general level of experience of the client in financial markets,

(vi) the specific experience of the client with the type of instrument under consideration,

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including the client's ability to independently evaluate how market developments would affect the security and ancillary risks such as currency rate risk, and

(vii) the complexity of the securities involved.

(3) Required actions once a suitability determination has been made.

Once each suitability determination has been made and:

(i) the *Dealer Member* has reasonable grounds for concluding that the *institutional client* is capable of making an independent investment decision and independently evaluating the investment risk, then the *Dealer Member's* suitability obligation is fulfilled for that transaction, or

(ii) the *Dealer Member* does not have reasonable grounds for concluding that the *institutional client* is capable of making an independent investment decision and independently evaluating the investment risk, then the *Dealer Member* must take steps to ensure that the *institutional client* fully understands the investment product, including the potential risks.

3404. Exemptions from and exceptions to suitability requirements

(1) A *Dealer Member* that has received approval from *IIROC* to offer *order execution only account* services to clients is not required to comply with sections 3402 or 3403, provided that the *Dealer Member*:

(i) complies with all *IIROC requirements* applicable to offering *order execution only accounts* services, and

(ii) provides no recommendations to purchase, sell, hold or exchange any security, including any class of security or the security of a class of issuer.

(2) A *Dealer Member* has no suitability obligation and is not required to make a suitability determination when it executes a trade on the instructions of:

(i) another *Dealer Member*, a *regulated entity*, an exempt market dealer, a portfolio manager, a bank, a trust company or an insurance company, or

(ii) an *institutional client* that:

(a) is also a "permitted client", as defined in National Instrument 31-103,

(b) is not a client described in clause 3404(2)(i), and

(c) has waived, in writing, the protections offered to them under subsections 3403(1) and 3403(2).

(3) A *Dealer Member* has no suitability obligation and is not required to make a suitability determination when accepting or transmitting orders for a client who has been provided with direct electronic access within the meaning of National Instrument 23-103, 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 clients* who have been provided with direct electronic access, and

(iii) complies with the Universal Market Integrity Rule requirements applicable to the direct

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electronic access service offering and the requirements of NI 23-103.

3405. Reserved.

3406. Primary responsibility and delegation

(1) Compliance with *IIROC requirements* relating to suitability is primarily the responsibility of the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* assigned to the client account.

(2) *Registered Representatives*, *Portfolio Managers* and *Associate Portfolio Managers* must not delegate their responsibility for suitability assessment obligations to any other *person*.

3407 - 3499. Reserved.

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RULE 3500

SALES PRACTICES

3501. Introduction

(1) Rule 3500 sets out minimum standards that *Dealer Members* must follow in their dealings with clients and when developing policies and procedures that specifically address sales practices.

3502. Definitions

(1) The following terms have the meaningset out below when used in Rule 3500:

"commencement of distribution"	The time when a *Dealer Member* has had *distribution discussions* which are of sufficient specificity that it is reasonable to expect that the *Dealer Member* (alone or with other underwriters) will propose an underwriting of *equity securities* to the issuer or selling security-holder.
"distribution"	The same meaning as defined under *securities laws* and includes a distribution pursuant to a bought deal agreement.
"distribution discussions"	Discussions by a *Dealer Member* with an issuer or a selling security-holder, or with another underwriter that has had discussions with an issuer or selling security-holder, concerning a *distribution*.

3503. Client priority

(1) A *Dealer Member* must give priority to client orders over all other orders for the same security at the same price.

(2) The *Dealer Member* must not give priority to orders for an account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged.

(3) Where investment decisions are made centrally and applied across a number of *managed accounts*, subsections 3503(1) and 3503(2) do not apply to the *managed accounts* of partners, *Directors*, *officers*, *employees* or *Approved Persons* of a *Dealer Member* who participate in a *managed account* program on the same basis as client accounts.

3504. Commission fees, service fees and other account related fees

(1) Upon the opening of an account, or 60 days prior to any fee being charged with respect to the account, a *Dealer Member* must provide each client with a fee schedule relating to any:

(i) fixed dollar or fixed percentage commission fees,

(ii) service fees,

(iii) administrative fees, and

(iv) other account charges.

(2) A *Dealer Member* who charges any of the fees identified in subsection 3504(1) may not charge a higher fee unless it has given 60 days' notice of this change to its clients.

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(3) The requirements set out in subsections 3504(1) and (2) do not apply to accounts of *institutional clients*.

(4) The disclosure requirements set out in subsections 3504(1) and (2) do not apply to interest charged by a *Dealer Member* in respect of an account.

(5) A *Dealer Member* may not charge a client a fee that is contingent upon the profit or performance of the client's account, unless specifically permitted under *IIROC requirements*.

3505. Payment of commission fees

(1) Unless otherwise permitted under *securities laws*, a *Dealer Member* must not pay any commission fees or other fees in connection with payments received from a client or issuer, to any *person* other than a *Registered Representative*, *Investment Representative*, *Portfolio Manager* or *Associate Portfolio Manager*.

3506. During the period of distribution

(1) During the period of *distribution*, a *Dealer Member* who participates in a *distribution* as an underwriter or as a member of a banking or selling group, must not offer for sale or accept any offer to buy all or any part of those securities at a price higher than the stated initial public offering price of the securities, and

(2) This obligation continues until the *Dealer Member* has notified the applicable securities commission that its role in the *distribution* has ended.

3507. New issues

(1) For the purpose of section 3507, the term "normal investment practice" does not include an account that has regularly purchased "hot issues" based on the history of investments in that account with the *Dealer Member*.

(2) A *Dealer Member* must make a bona fide offering of the total amount of its participation in a new issue to public investors.

(3) Public investors do not include an officer or employee of a bank, insurance company, trust company, investment fund, pension fund or similar institutional body or the immediate families of an officer or employee of these institutions regularly engaged in the purchase or sale of securities for such institution unless:

(i) the purchases are demonstrated to be for bona fide personal investment, and

(ii) are made in accordance with the *person's* normal investment practice.

3508. Inside information

(1) For the purpose of section 3508 "material non-public information" means material facts or material changes not generally disclosed as defined under *securities laws*.

(2) A *Director*, *Executive* or *employee* of a *Dealer Member* acting as a director to a reporting issuer is a person in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives,*

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employees or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(3) A representative of a *Dealer Member* acting in an underwriting or *advisory capacity* to a reporting issuer is a person in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives, employees* or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(4) When a *Dealer Member*, *Director*, *Executive* or *employee* of a *Dealer Member* has *material non-public information* about the issuer and discloses it to other personnel of the *Dealer Member* in the necessary course of business, those persons also become persons in a special relationship with the reporting issuer and must not disclose any *material non-public information* about the reporting issuer to anyone including any *Directors, Executives, employees* or clients, or research or trading departments of the *Dealer Member* unless in the necessary course of business.

(5) A *Dealer Member*'s policies and procedures must specifically address maintaining the confidentiality of *material non-public information*.

3509. Premarketing

(1) In subsections 3509(2), 3509(4) and 3509(5), an "informed person" refers to any *employee* or *Approved Person* of a *Dealer Member* who:

(i) participated in or had actual knowledge of the *distribution discussions,* or

(ii) acts on information provided by or is directed by, induced by, or otherwise receives suggestions from a *person* who directly or indirectly participated in or had actual knowledge of the *distribution discussions.*

(2) An *informed person* must not solicit expressions of interest from the public, in the type of securities subject to *distribution discussions*, from the *commencement of distribution* discussions until the earliest of:

(i) the issuance of a receipt for the preliminary prospectus,

(ii) a press release issued and filed in accordance with *applicable laws*, announcing the signing of an enforceable agreement in respect of the potential *distribution*, and

(iii) the *Dealer Member* deciding not to pursue the potential *distribution*.

(3) For the purpose of clause 3509(2)(ii), a press release will be deemed to have been issued when it is released to a news distribution service for distribution and will be deemed to have been filed when delivered or sent to the relevant provincial *securities regulatory authority*, in accordance with *securities laws*.

(4) An *informed person* must not engage, direct, suggest or induce another *informed person* to engage in market making or other principal trading activities in securities that are the subject of *distribution discussions.*

(5) Where a *Dealer Member* and issuer or selling security-holder can show a bona fide intention to distribute the *equity securities* pursuant to a prospectus exemption:

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(i) the *Dealer Member* including the *informed person* will not be subject to the restrictions in subsection 3509(2), (ii) notwithstanding clause 3509(5)(i), the restrictions in subsection 3509(2) will apply from the time it is reasonable to expect that a decision to abandon an exempt offering of *equity securities* in favor of a prospectus offering will be taken. (6) A *Dealer Member* involved in a *distribution* as an underwriter must: (i) maintain policies and procedures that specifically address compliance with the obligations under section 3509, and (ii) monitor the *Dealer Member*, its *employees* and *Approved Persons* compliance with these policies and procedures. **3510. - 3599. Reserved.**

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RULE 3600

COMMUNICATIONS WITH THE PUBLIC

3601. Introduction

(1) A *Dealer Member*'s policies and procedures must specifically address communication with the public and the *Dealer Member* must monitor compliance with these policies and procedures to provide reasonable assurance the *Dealer Member*, its *employees* and *Approved Persons* comply with the policies and procedures.

(2) Rule 3600 is divided into the following parts:

Part A – Advertisements, sales literature and correspondence
[sections 3602 and 3603]

Part B – Research reports
[sections 3606 through 3623]

Part A – ADVERTISEMENTS, SALES LITERATURE AND CORRESPONDENCE

3602. Definitions

(1) The following term has the meaning set out below when used in section 3603:

"trading strategy"	A broad general approach to investments including matters such as the use of specific products, leverage, frequency of trading or a method of selecting particular investments but does not include specific trade or sectoral weighting recommendations.

3603. Advertising

(1) A *Dealer Member* must not issue, participate in or knowingly allow the use of its name in any *advertisement*, *sales literature* or *correspondence* that:

(i) contains an untrue statement or omission of a material fact or is otherwise false or misleading,

(ii) contains an unjustified promise of specific results,

(iii) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions,

(iv) contains any opinion or forecast of future events which is not clearly labeled as such,

(v) fails to fairly present the potential risks to the client,

(vi) is detrimental to the interests of the public, *IIROC* or its *Dealer Members*, or

(vii) fails to comply with *IIROC requirements* or any *applicable laws*.

(2) A *Dealer Member*'s policies and procedures must specifically address the review and supervision of *advertisements, sales literature* and *correspondence* relating to its business.

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(3) A *Dealer Member* must ensure that the following items are approved by a *designated Supervisor* before use or publication:

(i) *research reports*,

(ii) market letters,

(iii) telemarketing scripts,

(iv) promotional seminar texts (excluding educational seminar texts),

(v) original *advertisements* or original template *advertisements*, and

(vi) any material containing performance reports or summaries that is used to solicit clients.

(4) A *Dealer Member* must ensure that all *advertising*, *sales literature* or *correspondence* not listed in subsection 3603(3) is reviewed in a manner appropriate to the type of material through:

(i) pre-use approval,

(ii) post-use review, or

(iii) post-use sampling.

(5) A *Dealer Member* must provide reasonable assurance:

(i) its *employees* and *Approved Persons* are familiar with its policies and procedures relating to *advertisements*, *sales literature* and *correspondence*, and

(ii) its policies and procedures include specific ongoing measures to provide reasonable assurance its policies and procedures are being complied with.

(6) A *Dealer Member* must retain copies of all *advertisements*, *sales literature* and *correspondence* and all *records* of supervision for the period set out in section 3803. These items must be readily available for inspection by *IIROC*.

3604. – 3605. Reserved.

Part B – RESEARCH REPORTS

3606. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 3600:

"analyst"	A *Dealer Member's employee* or *Approved Person* who is held out to the public as an analyst or whose responsibilities to the *Dealer Member* include the preparation, for distribution to clients or prospective clients, of any written report, which includes a recommendation with respect to a security.
"equity related security"	A security whose performance is based on the performance of an underlying *equity security* or a basket of income producing assets, including *derivatives*, convertible securities and income trust units.
"investment banking" or "investment banking service"	Includes but is not limited to: (i) acting as an underwriter in an offering of securities for an

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		issuer, (ii) acting as a financial adviser in a merger or acquisition, or (iii) providing venture capital, lines of credit or serving as a placement agent for an issuer.

3607. Policies and procedures and minimum disclosure

(1) A *Dealer Member*'s policies and procedures must specifically address:

(i) the conduct of *analysts*,

(ii) the publishing of *research reports*, and

(iii) the making of recommendations by *analysts*.

(2) A *Dealer Member* must designate one or more *Supervisors* to be responsible for reviewing and approving *research reports*.

3608. Research report disclosure of potential conflicts of interest

(1) A *research report* prepared by the *Dealer Member* must disclose any matter which might reasonably indicate an existing or potential conflict of interest for the *Dealer Member* or the *analyst*, which includes, but is not limited to, the matters set out in subsection 3608(2).

(2) A *research report* prepared by the *Dealer Member* must disclose:

(i) if the *Dealer Member* or its *affiliate*s has *beneficial ownership* of the *equity securities* of the subject issuer that amounts to one percent or more of any class of such securities:

(a) as of the end of the month prior to the issuance date of the *research report*, or

(b) as of the end of the second most recent month if the report issuance date is less than 10 days after the end of the prior month,

(ii) if:

(a) the *analyst*,

(b) an *associate* of the *analyst*, or

(c) any *person* directly involved in the preparation of the report,

holds or is short any of the issuer's securities directly or indirectly,

(iii) any services provided by any partner, *Director* or *officer* of the *Dealer Member* or *analyst* involved in the preparation of a report, other than services provided in the normal course investment advisory or trade execution services to the issuer for *remuneration,* during the 12 months immediately preceding the date a *research report* or recommendation was issued,

(iv) any *investment banking services* provided by the *Dealer Member* to the issuer for *remuneration* during the 12 months immediately preceding the date a *research report* or recommendation was issued,

(v) the name of any partner, *Director*, *officer*, *employee* or *agent* of the *Dealer Member* who is a partner, director, officer or employee of the issuer, or who serves in an equivalent *advisory*

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capacity to the issuer, and

(vi) if it is making a market in any *equity security* or *equity related security* of the subject issuer.

3609. Additional disclosures

(1) A *research report* must disclose or indicate where the following information is otherwise available:

(i) the *Dealer Member's* system for rating investment opportunities and how each recommendation fits within the system, and

(ii) the *Dealer Member's* policies and procedures that specifically address the dissemination of its *research reports*.

(2) A *Dealer Member* must, on a quarterly basis, disclose the percentage of its recommendations that fall into each category of its recommendation system.

3610. Quality of disclosures in a research report

(1) A *Dealer Member* must ensure that the *research report* disclosures required in sections 3608 and 3609 are made in a clear, meaningful, comprehensive and prominent manner.

(2) The *Dealer Member* must not use standard disclosure statements when it is more appropriate to use specific information and customized disclosures in order to comply with the requirements set out in section 3608 or 3609.

3611. Independent third party research report

(1) The disclosures required by sections 3608 and 3609 are applicable to *research reports* prepared by an independent third party that is distributed by a *Dealer Member* to its clients under the independent third party's name.

(2) The disclosures in sections 3608 and 3609 are not required in the following circumstances:

(i) in the case of independent third party *research reports* that are issued by members of the Financial Industry Regulatory Authority or *person*s governed by other regulators approved by *IIROC*, or

(ii) when a *Dealer Member* is only giving clients access to independent third party *research report*, or supplying an independent third party *research report* at the request of a client,

and

(iii) the *Dealer Member* discloses that the independent third party *research report* was not prepared in accordance with Canadian disclosure requirements relating to *research reports*.

3612. Directing the reader to disclosures

(1) When a *Dealer Member* distributes a *research report*:

(i) covering six or more issuers, the report may direct the reader to where the disclosures required under sections 3608, 3609 and 3616 may be found, or

(ii) electronically, the report may direct the reader to where the disclosures required under sections 3608, 3609 and 3616 may be accessed by electronic means, such as through the

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use of a hyperlink.

3613. Visiting an issuer

(1) A *Dealer Member* must disclose in its *research reports*:

(i) whether, and to what extent, an *analyst* has visited the issuer's material operations, and

(ii) if the issuer has paid or reimbursed any of the *analyst's* travel expenses with respect to the visit.

3614. Relationship with the issuer

(1) A *Dealer Member* must not issue a *research report* prepared by an *analyst* on any issuer for which the *analyst*, an *associate* of the *analyst* or the *designated Supervisor*:

(i) serves as an officer, director or employee of the issuer, or

(ii) serves in any *advisory capacity* to the issuer.

3615. Notice to discontinue coverage

(1) A *Dealer Member* must issue notice of its intention to suspend or discontinue coverage of an issuer, to the same audience who received the coverage and in the same manner that the coverage was distributed.

(2) Notice of discontinuance of coverage is not required if the sole reason for the suspension is that the issuer has been placed on a *Dealer Member's* restricted list.

3616. Setting price targets

(1) If a *Dealer Member* sets a price target in a *research report*, the *Dealer Member* must disclose, in that *research report*, the valuation method used.

3617. Prohibited inducements

(1) A *Dealer Member* must not, as consideration or inducement for the receipt of business or compensation from an issuer, directly or indirectly:

(i) offer to issue favourable *research report* on the issuer,

(ii) offer to set a favourable rating or price target on one or more of the issuer's securities,

(iii) offer to delay the changing of a rating or price target on one or more of the issuer's securities or the changing of any other *research report* element, including offering to delay the issue date of the *research report*, or

(iv) threaten to change a rating or a price target on one or more of the issuer's securities or any other element of a *research report.*

3618. Public comments

(1) When giving an interview or otherwise making any public comment about the merits of an issuer or its securities, an *employee* or *Approved Person* of a *Dealer Member* must disclose whether or not the *Dealer Member* has issued a relevant *research report.*

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3619. Policies and procedures on trading

(1) A *Dealer Member* who issues or distributes *research reports* must have policies and procedures that specifically address detecting and restricting any trading in *equity securities* or *equity related securities* of a subject issuer that is done with knowledge of or in anticipation of:

(i) the issuance of a *research report*,

(ii) a new recommendation, or

(iii) a change in a recommendation,

related to the subject security that could reasonably be expected to have an effect on the price of the subject securities.

(2) An *individual* directly involved in the preparation or approval of a *research report* must not trade in *equity securities* or *equity related securities* of the subject issuer for a period beginning 30 days prior to and ending five days after the issuance of the *research report*.

(3) Notwithstanding subsection 3619(2), an *individual* may trade with the prior written approval of a designated *Executive* of the *Dealer Member*.

(4) Approval under subsection 3619(3) may not be granted for trades that are contrary to the *analyst's* current recommendation, unless special circumstances exist.

3620. Prohibition on investment banking compensation

(1) A *research report* must disclose if the *analyst* responsible for the report received compensation within the prior 12 months that was based upon the *Dealer Member's investment banking* revenues.

(2) A *Dealer Member* must not pay any bonus, salary or other compensation to an *analyst* that is directly based upon a specific *investment banking* transaction.

3621. Relationship with investment banking

(1) A *Dealer Member*'s policies and procedures must specifically address preventingrecommendations in *research reports* from being influenced by the *investment banking* department or the issuer.

(2) The policies and procedures must specifically address, at a minimum:

(i) prohibiting the approval of *research reports* by the *investment banking* department,

(ii) limiting the *investment banking* department's involvement in the production of *research reports* solely to the correction of factual errors,

(iii) prohibiting and preventing the *investment banking* department from receiving advance notice of new ratings or rating changes on covered issuers, and

(iv) establishing systems to control and record the flow of information between *analyst*s and *investment banking* department staff, regarding issuers that are the subject of current or prospective *research reports*.

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3622. Quiet periods

(1) A *Dealer Member* must not issue a *research report* on *equity securities* of a subject issuer for which the *Dealer Member* has acted as manager or co-manager:

(i) for 10 days after the date of the offering of an initial public offering of *equity securities* of the subject issuer,

(ii) for three days after the date of the offering of a secondary offering of *equity securities* of the subject issuer.

(2) Subsection 3622(1) does not prevent a *Dealer Member* from issuing a *research report* on the effects of significant news about or a significant event affecting the issuer within the applicable 10 day or three day period.

(3) Subsection 3622(1) does not apply where the subject securities are exempted from restrictions under provisions relating to market stabilization set out in *IIROC requirements* and *securities laws*.

3623. Outside business activities

(1) A *Dealer Member* must pre-approve an *analyst's* outside business activities.

3624. – 3699. Reserved.

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RULE 3700

REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS

3701. Introduction

(1) A *Dealer Member* must report complaints, internal investigations and other matters to *IIROC* as required in Rule 3700.

(2) A *Dealer Member* must investigate allegations of misconduct as required in Rule 3700.

(3) A *Dealer Member* must handle all client complaints as required in Rule 3700.

(4) Rule 3700 is divided into the following parts:

Part A – Reporting requirements
[sections 3702 through 3704]

Part B – Internal investigations and internal discipline
[sections 3706 through 3708]

Part C – Settlement agreements
[sections 3710 and 3711]

Part D – Client complaints – Institutional Clients
[section 3715]

Part E – Client complaints – Retail Clients
[sections 3720 through 3728]

Part F – Legal actions
[section 3780]

Part G – Record retention requirements
[sections 3785 and 3786]

Part A – REPORTING REQUIREMENTS

3702. Reporting by an Approved Person to the Dealer Member

(1) An *Approved Person* must report to the *Dealer Member* any of the following matters within two *business days*:

(i) if there is a change in the *Approved Person's* registration information or Form 33-109F4,

(ii) if the *Approved Person* has reason to believe that he or she has or may currently be contravening any *IIROC requirements*, *securities laws,* or any *applicable laws*,

(iii) if the *Approved Person* is the subject of a written client complaint, or

(iv) if the *Approved Person* becomes aware of a client complaint, in writing or other form, about another *Approved Person* involving allegations of theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading,

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misrepresentation, or unauthorized trading.

(2) An *Approved Person* must inform the *Dealer Member* of all pending legal actions against the *Approved Person*.

(3) A *Dealer Member* must designate an *individual* or department to receive, and maintain *records* of, the reports required by subsection 3702(1).

3703. Reporting by a Dealer Member to IIROC

(1) A *Dealer Member* must report to *IIROC* any of the following matters, within the time period and using the method prescribed by *IIROC*:

(i) all client complaints, against the *Dealer Member* or any current or former *Approved Person*, except service complaints. For the purpose of clause 3703(1)(i), a service complaint by a client is one that is related to service issues and is not the subject of any domestic or foreign *securities laws*,

(ii) whenever an internal investigation is commenced by the *Dealer Member* in accordance with section 3706,

(iii) the results of the internal investigation under clause 3703(1)(ii),

(iv) any time the *Dealer Member*, or a current or former *Approved Person* is subject to one of the following in any jurisdiction inside or outside of Canada, while in the employ of the *Dealer Member* or concerning matters that occurred while in the employ of the *Dealer Member*:

(a) charged with, convicted of, plead guilty or no contest to, any criminal offence,

(b) named as a defendant or respondent in, or is the subject of, any proceeding or disciplinary action alleging contravention of any *securities laws*,

(c) named as a defendant or respondent in, or is the subject of any proceeding or disciplinary action alleging contravention of the requirements or policies of any regulatory or self-regulatory organization, professional licensing or registration body,

(d) denial of registration or license by any regulatory or self-regulatory organization, professional licensing or registration body, or

(e) subject to a civil claim or arbitration notice involving any of the following:

(I) any matters related to securities,

(II) any matter related to handling of client accounts or dealings with clients, or

(III) any matter that is the subject of any legislation, rules, regulations, or policies concerning securities, exchange contracts or financial services of any securities or financial services regulatory or self-regulatory organization in any jurisdiction,

(v) the resolution of any matters set out in clause 3703(1)(iv), and

(vi) any internal disciplinary action that is taken by a *Dealer Member* against an *Approved Person* as a result of:

(a) a client complaint within the meaning of clause 3703(1)(i),

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(b) a securities related civil claim or arbitration notice,

(c) an internal investigation,

(d) a *Dealer Member* initiated disciplinary action imposing suspension, termination, demotion, or trading restrictions on the *Approved Person*, or

(e) a *Dealer Member* initiated disciplinary action not involving any of the matters listed in sub-clauses 3703(1)(vi)(a) through 3703(1)(vi)(c), which results in a monetary penalty:

(I) over $5,000 for a single occurrence,

(II) over $15,000 in total in a calendar year, or

(III) imposed three times or more in a calendar year.

3704. Failure to report

(1) Failure to report, as required by sections 3702 and 3703, may result in *IIROC* imposing an administrative fee, or other penalties that are permitted under *IIROC requirements*, against the *Dealer Member* or *Approved Person*.

3705. Reserved.

Part B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE

3706. Requirement to commence an internal investigation

(1) A *Dealer Member* must conduct an internal investigation if it appears that the *Dealer Member* or a current or former *Approved Person* while employed by the *Dealer Member* engaged in any of the following types of activities in any jurisdiction inside or outside of Canada:

(i) theft,

(ii) fraud,

(iii) misappropriation of funds or securities,

(iv) forgery,

(v) money laundering,

(vi) market manipulation,

(vii) insider trading,

(viii) misrepresentation, or

(ix) unauthorized trading.

(2) For the purpose of clause 3706(1)(viii), a misrepresentation means:

(i) an untrue statement of facts, or

(ii) an omission to state a fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

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3707. Records of an internal investigation

(1) The *Dealer Member* must maintain *records* showing the:

(i) cause of,

(ii) steps taken, and

(iii) results,

of each internal investigation in accordance with section 3803.

3708. Internal discipline

(1) A *Dealer Member*'s policies and procedures must establish procedures for any breach of *IIROC requirements* or any *securities laws* to be subject to appropriate disciplinary measures.

3709. Reserved.

Part C – SETTLEMENT AGREEMENTS

3710. Entering into settlement agreements

(1) An *Approved Person* must obtain the *Dealer Member's* written consent before entering into any settlement agreement with a client, regardless of the form of the settlement and regardless of whether the settlement is the result of a client complaint or a finding by the *Approved Person* or the *Dealer Member*.

(2) A *Dealer Member* must keep a record of the prior written consent in accordance with section 3803.

(3) Subsection 3710(1) does not apply to settlement agreements entered into by an *employee* or *Approved Person* who is authorized by the *Dealer Member* to negotiate or enter into settlement agreements in the normal course of his/her duties and does not arise out of the activities involving the *Approved Person*.

3711. Release

(1) A release entered into between a *Dealer Member* and a client may not impose confidentiality or similar restrictions aimed at preventing a client from initiating a complaint to the *securities regulatory authorities*, *SROs* or other enforcement authorities, or continuing with any pending complaint in progress, or participating in any further proceedings by such authorities.

3712. – 3714. Reserved.

Part D – CLIENT COMPLAINTS – INSTITUTIONAL CLIENTS

3715. Policies and procedures

(1) The *Dealer Member*'s policies and procedures must specifically address dealing effectively with *institutional client* complaints received.

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(2) The *Dealer Member's* policies and procedures must specifically address the following:

(i) the *Dealer Member* must acknowledge all written and verbal *institutional client* complaints,

(ii) the *Dealer Member* must convey the results of its investigation, if any, of a complaint to the *institutional client* in due course,

(iii) the *Dealer Member* must ensure that the *Approved Person* and their *Supervisor* is aware of all *institutional client* complaints filed against the *Approved Person*,

(iv) the *Dealer Member* must ensure that all allegations of serious misconduct are reported to an appropriate *Executive*, and

(v) complaints are to be handled by a *Supervisor* and a copy must be filed with the compliance department/function (or the equivalent) of the *Dealer Member.*

(3) If the *Dealer Member* determines that the number or severity of complaints is significant, or when a *Dealer Member* detects frequent and repetitive complaints made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the *Dealer Member* must:

(i) review its internal policies and procedures, and

(ii) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3716. – 3719. Reserved.

Part E – CLIENT COMPLAINTS – RETAIL CLIENTS

3720. Retail client complaints

(1) A *Dealer Member* must establish and maintain policies to deal effectively with both:

(i) *retail client* complaints alleging misconduct, and

(ii) *retail client* complaints that do not allege misconduct.

(2) A *Dealer Member* must provide a written response to any *retail client* complaint that is submitted in the form specified in section 3721.

3721. Application

(1) Part E of Rule 3700 applies to complaints submitted by a *retail client* or a *person* authorized to act on behalf of a *retail client* in the following form:

(i) a recorded expression of dissatisfaction with a *Dealer Member* or *employee* or *agent* alleging misconduct, or

(ii) a verbal expression of dissatisfaction with the *Dealer Member* or *employee* or *agent* alleging misconduct where a preliminary investigation indicates that the allegation may have merit.

(2) For the purpose of subsections 3720(1) and 3721(1), alleged misconduct includes, but is not limited to:

(i) allegations of breach of confidentiality, theft, fraud, misappropriation or misuse of funds or

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securities, forgery, unsuitable investments, misrepresentation, or unauthorized trading relating to the client's account,

(ii) other inappropriate financial dealings with clients, or

(iii) engaging in *Dealer Member related activities* outside of the *Dealer Member*.

(3) Any matter which is the subject of a civil action or arbitration is not considered to be a complaint for the purpose of section 3721.

3722. Handling client complaints

(1) Complaints must be handled by supervisory or compliance staff and a copy of the complaint must be filed with the compliance department or function (or the equivalent) of the *Dealer Member*.

(2) The *Dealer Member* must appoint an *individual* to act as the designated complaints officer. The *individual* must have the requisite experience and authority to oversee the complaint handling process and to act as a liaison with *IIROC*.

3723. Complaint policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address dealing effectively, fairly and expeditiously with complaints.

(2) A *Dealer Member's* policies and procedures must specfically address:

(i) procedures for a fair and thorough investigation of complaints,

(ii) a process for assessing the merits of complaints,

(iii) the process to be followed in determining what offer should be made to the client, where the complaint is assessed to have merit,

(iv) a description of remedial actions which may be appropriate to be taken within the firm,

(v) a procedure that will ensure that complaints are not dismissed without proper consideration of the facts of each case,

(vi) a balanced approach to dealing with complaints that objectively considers the interests of the complainant, the *Dealer Member,* including the *employees, Approved Persons* or other relevant parties,

(vii) a process that ensures that the relevant *employees, Approved Persons* and their *Supervisors* are made aware of all complaints filed by their clients,

(viii) procedures to inform an appropriate *Executive* of any serious misconduct, and

(ix) procedures to monitor the general nature of the complaints.

(3) If a *Dealer Member* determines that the number or severity of complaints is significant, or when a *Dealer Member* detects frequent and repetitive complaints made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, the *Dealer Member* must:

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(i) review its internal procedures and practices, and

(ii) ensure recommendations to remedy the problem are submitted to the appropriate management level.

3724. Client access

(1) At the time of account opening, a *Dealer Member* must provide each new client with:

(i) a written summary of the *Dealer Member's* complaint handling procedures, which is clear and can be easily understood by the client, and

(ii) a copy of the complaint handling process brochure, approved by *IIROC*.

(2) A *Dealer Member* must make available to its clients, on an ongoing basis, a written summary of the *Dealer Member's* complaint handling procedures which may be made available either on the *Dealer Member's* website or by other means.

3725. Complaint acknowledgement letter

(1) The *Dealer Member* must send an acknowledgement letter to the complainant within five *business days* of receipt of a complaint.

(2) The acknowledgement letter in subsection 3725(1) must include the following:

(i) the name, job title and full contact information of the *individual* at the *Dealer Member* handling the complaint,

(ii) a statement indicating that the client should contact the *individual* at the *Dealer Member* handling the complaint if he/she would like to inquire about the status of the complaint or provide the *Dealer Member* with any additional information,

(iii) an explanation of the *Dealer Member's* internal complaint handling process, including but not limited to the role of the designated complaints officer,

(iv) a reference to an attached copy of *IIROC* approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,

(v) the 90 days time line to provide a substantive response to complainants, and

(vi) a statement informing the client that the *Dealer Member* may request additional information, from time to time, to investigate the complaint.

3726. Response to client complaints

(1) The *Dealer Member* must send a substantive response letter to each complainant.

(2) The substantive response letter must be accompanied by a copy of the complaint handling process brochure approved by *IIROC*.

(3) The substantive response letter must be presented in a manner that is fair, clear and not misleading to the client, and must include the following information:

(i) a summary of the complaint,

(ii) the result of the *Dealer Member's* investigation,

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(iii) the *Dealer Member's* final decision on the complaint, including an explanation, and

(iv) a statement describing to the client the options available if the client is not satisfied with the *Dealer Member's* response, including the availability of:

(a) arbitration,

(b) litigation/civil action,

(c) submitting a complaint to *IIROC*,,

(d) the ombudsman service, if a request is made within the period required by the ombudsman,

(e) an internal ombudsman service offered by an *affiliate* of the *Dealer Member*, if any, with an explanation that:

(I) the use of the internal ombudsman process is voluntary, and

(II) the estimated length of time the process is expected to take based on historical data, and

(f) any other applicable options.

(4) A *Dealer Member* must respond to each client complaint as soon as possible and not later than 90 days from the date of receipt of the complaint subject to the following:

(i) the 90 days time line must include all internal processes of the *Dealer Member* that are made available to the client, other than the internal ombudsman process offered by an *affiliate* of the *Dealer Member*,

(ii) the *Dealer Member* must inform the client if the *Dealer Member* is unable to provide the client with a final response within the 90 days time line and must include the reasons for the delay and the new estimated time of completion, and

(iii) the *Dealer Member* must inform *IIROC* if the *Dealer Member* is unable to meet the 90 days time line and must provide reasons for the delay.

3727. Duty to assist in client complaint resolution

(1) If an *Approved Person* moves to a different *Dealer Member* after a complaint has been made against the *Approved Person*, the *Approved Person* must continue to co-operate with the *Dealer Member* where they were employed or acted as an *agent* until the complaint has been resolved.

(2) *Dealer Members* must co-operate with each other if events relating to a complaint took place at more than one *Dealer Member* or if the *Approved Person* is an *employee* or *agent* of another *Dealer Member* that is not involved in the events relating to the complaint.

3728. Client complaint file

(1) A *Dealer Member* must retain the following information in accordance with section 3786 for each client complaint:

(i) the complainant's name,

(ii) the date of the complaint,

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(iii) the nature of the complaint,

(iv) the name of the *individual* who is subject of the complaint,

(v) the securities or services which are the subject of the complaint,

(vi) the materials reviewed in the investigation,

(vii) the name, title and date *individuals* were interviewed for the investigation, and

(viii) the date and conclusion of the decision rendered in connection with the complaint.

3729. – 3779. Reserved.

Part F – LEGAL ACTIONS

3780. Reporting legal actions

(1) All legal actions against the *Dealer Member* must be reported to an appropriate *Executive* of the *Dealer Member*.

3781. – 3784. Reserved.

Part G – RECORD RETENTION REQUIREMENTS

3785. Matters reported to IIROC

(1) A *Dealer Member* must maintain, and make available to *IIROC* upon request, copies of all documents associated with matters reported to *IIROC* under section 3703 for a minimum of seven years from the date of resolution of the matter.

3786. Client complaints

(1) A *Dealer Member* must keep an up-to-date record of all client complaints and associated documentation relating to the conduct, business and affairs of the *Dealer Member*, or an *employee* or *agent* of the *Dealer Member*, in a central and readily accessible place for a period of two years from the date of receipt of a client complaint.

(2) For each client complaint file, a *Dealer Member* must maintain a copy for seven years in a location that is retrievable within a reasonable period of time.

3787. – 3799. Reserved.

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RULE 3800

DEALER MEMBER RECORDS AND CLIENT COMMUNICATIONS

3801. Introduction

(1) Maintaining complete and accurate *records* is a fundamental responsibility of a *Dealer Member.* A *Dealer Member's records* provide an audit trail to support the *Dealer Member's* supervision of its business and are necessary to prepare regulatory financial reports and to report accurately to clients.

3802. Definitions

(1) The following terms have the meaning set out below when used in Rule 3800:

"book cost"	In the case of: (i) a long security position, the total amount paid for the security, including any *transaction charges* related to the purchase, adjusted for reinvested distributions, returns of capital and corporate actions, or (ii) a short security position, the total amount received for the security, net of any *transaction charges* related to the sale, adjusted for any distributions (other than dividends), returns of capital and corporate actions.
"connected issuer"	The same meaning as ascribed to it in *securities laws*
"cost"	For each security position in the account and each security position subject to the additional reporting obligation under section 3809: (i) on or after December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) in the case of security positions that are transferred in, either: (I) the amount determined in sub-clause (i)(a) of this definition, or (II) the *market value* of the security position as at the date of transfer, provided that the following notification or a notification that is substantially similar identifies each security position where *market value* has been used is included in the statement or report:

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		"Market value information has been used to estimate part or all of the [book cost/original cost] of this security position." (ii) before December 31, 2015: (a) either *book cost* or *original cost*, determined as at the end of the applicable period, provided that only one cost calculation methodology, either *book cost* or *original cost*, is used for all positions, or (b) the *market value* of the security position as at December 31, 2015 or an earlier date, provided that the following notification or a notification that is substantially similar identifies each security position where *market value* has been used is included in the statement or report: "Market value information as at [December 31, 2015 or earlier date] has been used to estimate part or all of the [book cost/original cost] of this security position." (iii) where the *Dealer Member* reasonably believes it cannot determine the *cost* in accordance with clause (i) and sub-clause (ii)(b) of this definition, the *Dealer* must include the following notification or a notification that is substantially similar: "The [book cost/original cost] of this security position cannot be determined."	
	"market value"	For securities, precious metals bullion and *futures contracts*: (i) that are quoted on an active market, the published price quotation using: (a) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, (b) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date, (c) for all other unlisted securities (including unlisted *debt securities*) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of *debt securities*, based on a reasonable yield rate, (d) for *futures contracts*, the settlement price on the relevant date or last trading day prior to the relevant date, (e) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current	

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		yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date, (f) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in sub-clause (i)(e) of this definition and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and (g) for money market repurchases with borrower call features, the borrower call price, and after making any adjustments considered by the *Dealer Member* to be necessary to accurately reflect the market value, (ii) where a reliable price cannot be determined: (a) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly, or (b) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or (c) where insufficient recent information is available or there is a wide range of possible values and *cost* represents the best value estimate within that range, *cost* and the *Dealer Member* must include the following notification or a notification that is substantially similar: "There is no active market for this security so we have estimated its market value." (iii) where a value cannot be reliably determined under clauses (i) and (ii) of this definition, no value shall be reported and the *Dealer Member* must include the following notification or a notification that is substantially similar: "Market value not determinable."	
	"operating charge"	Any amount charged to a client by a *Dealer Member* in respect of the operation, transfer or termination of a client's account and includes any taxes paid on that amount.	
	"original cost"	In the case of: (i) a long security position, the total amount paid for the security, including any *transaction charges* related to the purchase, or (ii) a short security position, the total amount received for the security, net of any *transaction charges* related to the sale.	

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"outside holdings"	The client positions for which the *Dealer Member* is the 'dealer of record' that are neither held at or under the control of the *Dealer Member*.
"related issuer"	The same meaning as ascribed to it in *securities laws*.
"total percentage return"	The cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.
"trailing commission"	Any payment related to a client's ownership of a security that is part of a continuing series of payments to a *Dealer Member* by any party.
"transaction charge"	Any amount charged to a client by a *Dealer Member* in respect of a purchase or sale of a security and includes any taxes paid on that amount.

3803. General requirements for record retention periods

(1) A *Dealer Member* must retain copies of all *records* in a safe location required under *IIROC requirements*, in durable and accessible form, for a minimum of seven years from the date the *record* is created unless *IIROC requirements* or *securities laws* relating to the specific type of *record* require a different retention period.

3804. General requirements to maintain records

(1) A *Dealer Member* must maintain current *records* that:

(i) properly record its business activities, financial position, financial operating results and client transactions, and

(ii) demonstrate the *Dealer Member's* compliance with *securities laws* and *IIROC requirements*.

(2) The *records* required under subsection 3804(1) include, but are not limited to, *records* that do the following:

(i) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to *IIROC* or the applicable *securities regulatory authority*,

(ii) permit determination of the *Dealer Member's* capital position,

(iii) demonstrate compliance with the *Dealer Member's* capital and insurance requirements,

(iv) demonstrate compliance with *internal control* procedures,

(v) demonstrate compliance with the *Dealer Member's* policies and procedures,

(vi) permit the identification and *segregation* of client cash, securities, and other property,

(vii) identify all transactions conducted on behalf of the *Dealer Member* and each of its clients, including the parties to the transaction and the terms of the purchase or sale,

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(viii) provide an audit trail for:

(a) client instructions and orders, and

(b) each trade transmitted or executed for a client or by the *Dealer Member* on its own behalf,

(ix) permit the generation of account activity reports for clients,

(x) provide securities pricing as may be required by *securities laws*,

(xi) document the opening of client accounts, including any agreements with clients,

(xii) demonstrate compliance with know-your-client and suitability requirements,

(xiii) demonstrate compliance with complaint handling requirements,

(xiv) document correspondence with clients, and

(xv) document compliance and supervision actions taken by the *Dealer Member*.

(3) A *Dealer Member* must maintain appropriate *internal controls* to provide reasonable assurance that its *records*:

(i) are correct,

(ii) provide clear and accurate information, and

(iii) remain current.

(4) A *Dealer Member* must make its *records* available to *IIROC* on request, in the manner requested by *IIROC*.

(5) A *Dealer Member* must provide *IIROC* with statistical or other information with respect to the *Dealer Member's* business that *IIROC* may request from time to time, acting reasonably. Such information must be provided as soon as practicable following *IIROC's* request.

3805. Trade blotters (records of original entry)

(1) A *Dealer Member* must maintain blotters or other *records* of original entry by itemizing daily, the following:

(i) all purchases and sales of securities,

(ii) all receipts and deliveries of securities (including certificate numbers),

(iii) all trades in *futures contracts* and *futures contract options*,

(iv) all receipts and disbursements of cash, and

(v) all other debits and credits.

(2) The blotters or *records* of original entry must contain, at a minimum, the following:

(i) in the case of trades in securities:

(a) the name, class and designation of securities,

(b) the number, value or amount of securities and the unit and aggregate purchase or sale price (if any),

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(c) the name or other designation of the *person* from whom the securities were purchased or received or to whom they were sold or delivered,

(d) the trade dates, and

(e) the applicable account in which each transaction was effected,

(ii) in the case of trades in *futures contracts*:

(a) the commodity and quantity bought or sold,

(b) the delivery month and year,

(c) the price at which the contract was entered into,

(d) the commodity futures exchange,

(e) the name of the dealer if any, used by the *Dealer Member* as its *agent* to effect the trade,

(f) the trade dates,

(g) the applicable account in which each transaction was effected, and

(h) whether the transactions are opening or closing transactions (where required by the marketplace), and

(iii) in the case of trades in *futures contract options*:

(a) the type and number,

(b) the premium,

(c) the *futures contract* that is the subject of the *futures contract option*,

(d) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*,

(e) the declaration date,

(f) the striking price,

(g) the commodity futures exchange,

(h) the name of the dealer, if any, used by the *Dealer Member* as its *agent* to effect the trade,

(i) the trade dates,

(j) the applicable account in which each transaction was effected, and

(k) whether the transactions are opening or closing transactions (where required by the marketplace).

3806. General ledger of accounts

(1) A *Dealer Member* must maintain a general ledger (or other *records*) with an itemized account detail of all assets, liabilities, income, expense and capital accounts.

3807. Itemized client ledger accounts

(1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to

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each cash and margin account of every client, all purchases, sales, receipts, deliveries and other trades of securities, *futures contracts* and *futures contract options* for such account and all other debits and credits to such account.

(2) When a *Dealer Member* receives securities and property to margin, *guarantee*, or secure the trades or contracts of a client's account, the ledger must contain, at a minimum, the following:

(i) a description of the securities or property received,

(ii) the date when received,

(iii) the identity of any deposit institution where such securities or property are *segregated*,

(iv) the dates of deposit and withdrawal from such institutions, and

(v) the date of return of such securities or property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.

(3) When a *Dealer Member* invests the money, proceeds or funds *segregated* for the benefit of its clients, the ledger must contain, at a minimum, the following:

(i) the date of the transaction,

(ii) the identity of the *person* or company through or from whom such securities were purchased,

(iii) the amount invested,

(iv) a description of the securities invested in,

(v) the identity of the deposit institution, other dealer or dealer registered under any *securities laws* where such securities are deposited,

(vi) the date of liquidation or other disposition and the money received on such disposition, and

(vii) the identity of the *person* or company to or through whom such securities were disposed.

3808. Client account statements

(1) A *Dealer Member* must send a monthly statement to each client who:

(i) requests to receive a client account statement on a monthly basis, or

(ii) at the end of the month has:

(a) had a transaction during the month,

(b) has experienced a cash or security modification, other than dividend or interest payments,

(c) an unexpired and unexercised *futures contract option* position, or

(d) an open *futures contract*, or exchange contract position,

in their account.

(2) A *Dealer Member* must send a quarterly statement to each client who, at the end of the quarter has:

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(i) a debit or credit balance, or

(ii) one or more security positions (including securities held in *safekeeping* or in *segregation*),

in their account.

(3) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:

(i) the opening cash balance in the account,

(ii) all deposits, credits, withdrawals and debits made to the account,

(iii) the closing cash balance in the account,

(iv) the name and quantity of each security position in the account,

(v) for each security position in the account:

(a) where the *market value* is determinable:

(I) the *market value*,

(II) the total *market value*, and

(III) if applicable, the notification required pursuant to clause (ii) of the definition of *market value* in subsection 3802(1)

(b) where the *market value* is not determinable, the notification required pursuant to clause (iii) of the definition of *market value* in subsection 3802(1),

(vi) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:

(a) for each security position in the account:

(I) where the *cost* is determinable, either the *cost* or the total *cost*, and

(II) where the *cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1),

and

(b) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided that where the individual position *cost* information included in the statement is calculated using:

(I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and

(II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

(vii) the total *market value* of all cash and security positions in the account, and

(viii) where the client is a *retail client* and the statement is a quarterly statement, the total *cost* of all cash and security positions in the account.

(4) In the case of clients with any security positions which might be subject to a deferred sales

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charge if they are sold, a notation identifying each security position that might be subject to a deferred sales charge.

(5) In the case of clients with any unexpired and unexercised *futures contract options*, open *futures contracts*, or exchange contracts, the monthly statement must contain, at a minimum, the following:

(i) each unexpired and unexercised *futures contract option*,

(ii) the striking price of each unexpired and unexercised *futures contract option*,

(iii) each open *futures contract*, and

(iv) the price at which each open *futures contract* was entered into.

(6) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating trade in a *futures contract*, the monthly statement must contain, at a minimum, the following:

(i) the dates of the initial transaction and liquidating trade,

(ii) the commodity and quantity bought and sold,

(iii) the commodity futures exchange upon which the contracts were traded,

(iv) the delivery month and year,

(v) the prices on the initial transaction and on the liquidating trade,

(vi) the gross profit or loss on the transactions,

(vii) the commission, and

(viii) the net profit or loss on the transactions.

(7) In the case of transactions involving securities of the *Dealer Member* or a *related issuer* of the *Dealer Member*, or in the course of a distribution to the public, securities of a *connected issuer* of the *Dealer Member*, the monthly statement must state that the securities are securities of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

(8) If a *Dealer Member* does not deposit clients' *free credit balances* in a trust bank account, the client statement must include the following notation:

"Any free credit balances (except for RRSP funds held in trust) represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."

3809. Report on client positions held outside of the Dealer Member

(1) A *Dealer Member* must send a quarterly report on *outside holdings* (report to be called "Report on client positions held outside of the *Dealer Member")* to each *retail client* who, at the end of the quarter holds outside of the *Dealer Member's* control, either in book-based client name or physical client name, one or more positions:

(i) in securities issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under *applicable laws* and the *Dealer Member* is the dealer of record for the

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client on the records of the issuer of the security or the records of the issuer's investment fund manager, and (ii) in any other security on which the *Dealer Member* receives continuing compensation payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party. (2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made: (i) the name and quantity of each security position, (ii) for each security position: (a) where the *market value* is determinable: (I) the *market value,* (II) the total *market value*, and (III) if applicable, the notification required pursuant to clause (ii) of the definition of *market value* in subsection 3802(1), and (b) where the *market value* is not determinable, the notification required pursuant to clause (iii) of the definition of *market value* in subsection 3802(1), (iii) for each security position: (a) where the *cost* is determinable, either the *cost* or the total *cost*, and (b) where the *cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1), (iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided that where the individual position *cost* information included in the statement is calculated using: (a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and (b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, (v) the total *market value* of all security positions, (vi) the total *cost* of all security positions, and (vii) the name of the party that holds or controls each security position and a description of the way it is held. (3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each security position that might be subject to a deferred sales charge. (4) The report must indicate:

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(i) that the client's *outside holdings* are not covered by the *Canadian Investor Protection Fund*, and

(ii) whether the securities are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority* and, if they are, the name of the fund.

3810. Performance report

(1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:

(i) an account with:

(a) a debit or credit balance, or

(b) one or more security positions (including securities held in *safekeeping* or in *segregation*), or

(ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,

and

(iii) there is at least one security in the account or at least one *outside holding* for which quarterly reporting pursuant to section 3809 is required, for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 3802(1),

and

(iv) the client's account was opened at least 12 months ago.

(2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) the total combined *market value* of all cash and security positions:

(a) as at July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, as at the account opening date,

(b) as at the beginning date of the 12-month period covered by the report, and

(c) as at the end date of the report,

(ii) the total combined *market value* of all deposits and transfers in of cash and security positions:

(a) in the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date, to the end date of the report, and

(b) in the 12-month period covered by the report,

(iii) the total combined *market value* of all withdrawals and transfers out of cash and security positions:

(a) In the period from July 15, 2015 or, where the account was opened prior to July 15,

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2015 and the information is available, the period from the account opening date to the end date of the report, and (b) In the 12-month period covered by the report, (iv) the total combined change in *market value* of all cash and security positions: (a) for the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, determined using the following formula: Total *market value* change from account opening = Closing *market value* [Sub-clause 3810(2)(i)(c)] - Account opening *market value* [Sub-clause 3810(2)(i)(a)] - Deposits and transfers in [Sub-clause 3810(2)(ii)(a)] + Withdrawals and transfers out [Sub-clause 3810(2)(iii)(a)], and (b) for the 12-month period covered by the report, determined using the following formula: Total 12-month *market value* change = Closing *market value* [Sub-clause 3810(2)(i)(c)] - Account opening *market value* [Sub-clause 3810(2)(i)(b)] - Deposits and transfers in [Sub-clause 3810(2)(ii)(b)] + Withdrawals and transfers out [Sub-clause 3810(2)(iii)(b)], (v) the amount of the annualized *total percentage return* calculated net of charges using a money weighted rate of return calculation methodology generally accepted in the securities industry for the following periods: (a) the 12-month period covered by the report, (b) the three-year period preceding the end date of the report, (c) the five year period preceding the end date of the report, (d) the 10 year period preceding the end date of the report, and (e) the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report,

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provided that if any portion of a period referred to in sub-clauses 3810(2)(v)(b), 3810(2)(v)(c) and 3810(2)(v)(d) is before July 15, 2015, the *Dealer Member* is not required to report the annualized *total percentage return* for that period, and (vi) the definition of *total percentage return* as set out in subsection 3802(1) and a notification indicating the following: (a) the *total percentage return* presented in the performance report was calculated net of fees / charges, (b) the calculation method used, and (c) a general explanation in plain language of what the calculation method takes into account. (3) The combined information required to be provided under subsection 3810(2) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining: (i) the content of the report and how a client can use the information to assess the performance of the client's investments, and (ii) the changing value of the client's investments as reflected in the information in the report. (4) The *Dealer Member* must send a performance report containing the combined information required to be provided under subsection 3810(2) to a client every 12 months, except that: (i) the first performance report sent after a *Dealer Member* opens an account for a client may be sent within 24 months, and (ii) any performance report sent to a client that covers the 12-month period ending on December 31, 2016 is not required to include in the report the information set out in: (a) sub-clauses 3810(2)(i)(a), 3810(2)(ii)(a), 3810(2)(iii)(a) and 3810(2)(iv)(a) [Prior period comparative account activity information], and (b) sub-clauses 3810(2)(v)(b) through 3810(2)(v)(e) [Prior period comparative percentage return information], and (iii) where a performance report that covers the 12-month period ending on December 31, 2016 is sent to the client pursuant to clause 3810(4)(ii), all subsequent performance reports for the 12-month periods ending on December 31, 2017 and each calendar year thereafter may include: (a) the information required by sub-clauses 3810(2)(i)(a), 3810(2)(ii)(a), 3810(2)(iii)(a) and 3810(2)(iv)(a) [Prior period comparative account activity information] as at or for the period commencing January 1, 2016, as applicable, and (b) the information required by sub-clauses 3810(2)(v)(b) through 3810(2)(v)(e) [Prior period comparative percentage return information] provided that if any portion of a period referred to in sub-clauses 3810(2)(v)(b), 3810(2)(v)(c), and 3810(2)(v)(d), is before January 1, 2016, the *Dealer Member* is not required to report the annualized *total percentage return* for that period.

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(5) For the purposes of this section 3810, the information in respect of securities of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.

(6) For the purposes of this section 3810, the information in respect of securities of a client required to be reported under section 3809 must be included in the report for each of the client's accounts through which the securities were transacted.

(7) Subsections 3810(5) and 3810(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any securities of a client required to be reported under section 3809 provided:

(i) the client has consented in writing to receiving a consolidated report,

and

(ii) the report that is sent specifies the accounts and securities for which the consolidated information is being provided.

(8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3810(7), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and securities,

as the annual fee/charge reports that are sent to the same client.

3811. Fee/charge report

(1) A *Dealer Member* must send a fee/charge report to each *retail client* who, at the end of the 12-month period covered by the report or a shorter period in the case of the first report delivered after a client has opened an account, has:

(i) an account, or

(ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,

and

(iii) paid a fee, charge or other payment, including payments referred to in clauses 3811(2)(viii) and 3811(2)(ix), either directly or indirectly, to the *Dealer Member* or any of its registered *individuals* during the period covered by the report.

(2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

(i) a discussion of the *operating charges* which might be applicable to the client's account,

(ii) the total amount of each type of *operating charge* related to the client's account paid by the client during the period covered by the report,

(iii) the aggregate total amount of all *operating charges* related to the client's account paid by the client during the period covered by the report,

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(iv) the total amount of each type of *transaction charge* related to the purchase or sale of securities paid by the client during the period covered by the report,

(v) the aggregate total amount of all *transaction charges* related to the client's account paid by the client during the period covered by the report,

(vi) the aggregate total amount of all charges reported under clauses 3811(2)(iii) and 3811(2)(v),

(vii) if the *Dealer Member* purchased or sold *debt securities* for the client during the period of the report, either of the following:

(a) the total amount of any mark-ups, mark-downs, commissions or other fees or charges the *Dealer Member* applied on the purchases or sales of *debt securities*,

(b) the total amount of any commissions charged to the client by the *Dealer Member* on the purchases or sales of *debt securities* and, if the *Dealer Member* applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of *debt securities*, the following notification or a notification that is substantially similar:

"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price your received (in the case of a sale). This amount was in addition to any commissions you were charged.",

(viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by a securities issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and

(ix) if the *Dealer Member* received *trailing commissions* related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"We received $[amount] in trailing commissions in respect of securities you owned during the period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."

(3) For the purposes of this section 3811, the information in respect of securities of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.

(4) For the purposes of this section 3811, the information in respect of *outside holdings* of a client

required to be reported under section 3809 must be included in the report for each of the client's accounts through which the securities were transacted.

(5) Subsections 3811(3) and 3811(4) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* of a client required to be reported under section 3809 provided:

(i) the client has consented in writing to receiving a consolidated report, and

(ii) the report that is sent specifies the accounts and securities for which the consolidated information is being provided.

(6) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3811(5), must:

(i) be prepared for the same 12-month period, and

(ii) include aggregated information for the same accounts and securities,

as the annual performance reports that are sent to the same client.

3812. Secondary or subsidiary records

(1) A *Dealer Member* must maintain the following ledgers (or other *records*):

(i) securities in transfer,

(ii) dividends and interest received,

(iii) securities borrowed and securities loaned,

(iv) monies borrowed and monies loaned (together with a *record* of the collateral and any substitutions in such collateral),

(v) securities failed to receive and failed to deliver, and

(vi) money, securities and property received to margin, *guarantee* or secure the trades or contracts of clients, and all funds accruing to clients, which must be *segregated* for the benefit of clients under any *applicable laws*.

3813. Securities record

(1) A *Dealer Member* must maintain a securities *record* or a ledger, for each security as of the trade or settlement dates, of all long and short positions (including securities in *safekeeping*) carried for the *Dealer Member's* account or for the account of clients.

(2) The securities *record* or ledger must contain the following:

(i) the location of all securities long and the offsetting position to all securities short, and

(ii) the name or designation of the account in which each position is carried.

3814. Commodity record

(1) A *Dealer Member* must maintain a commodity *record* or ledger, for each commodity as of the trade date, of all long positions or short positions in *futures contracts* carried for the *Dealer Member's* account or for the account of clients.

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(2) The commodity *record* or ledger must contain the name or designation of the account in which each position is carried.

3815. Memoranda of orders

(1) A *Dealer Member* must maintain an adequate *record* of each order or other instruction given or received for all purchases and sales of securities and trades in *futures contract* and *futures contract options*, whether executed or unexecuted, showing at a minimum the following:

(i) the terms and conditions of the order or instruction and of any modification or cancellation thereof,

(ii) the account to which the order or instruction relates,

(iii) the time of entry of the order or instruction and, where the order is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,

(iv) where the order relates to an omnibus account, the component accounts within the omnibus account on whose behalf the order is to be executed, and the allocation among the component accounts intended on execution,

(v) to the extent feasible, the time of execution or cancellation,

(vi) the price at which the order or instruction was executed,

(vii) the time of report of execution, and

(viii) whether the transactions are opening or closing transactions (where required by the marketplace).

(2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order or instruction, if the order or instruction is placed by an *individual* other than:

(i) the account holder, or

(ii) an *individual* authorized in writing to direct orders or instructions for the account.

3816. Trade confirmations

(1) A *Dealer Member* must promptly send the client a written confirmation of all purchases and sales of securities and of all trades in *futures contracts* and *futures contract options*, and copies of notices of all other debits and credits of money, securities, property, proceeds of loans and other items for the client's account.

(2) The written confirmation must contain, at a minimum, the day and the marketplace or marketplaces where the trade took place, or marketplace disclosure language acceptable to *IIROC*; the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade; the name of the salesperson, if any, involved in the transaction; the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, the settlement date of the trade:

and

(i) in the case of trades in securities:

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(a) the quantity and description of the security, (b) the consideration, (c) whether or not the *person* or company that executed the trade acted as principal or agent, and (d) must maintain and make available to the client or *IIROC,* upon request, the name of the *person* or company from or to or through whom the security was bought or sold, if acting as an agent in a trade upon an equity marketplace, and (ii) in the case of trades in *futures contracts*: (a) the commodity and quantity bought or sold, (b) the price at which the contract was entered into, and (c) the delivery month and year, and (iii) in the case of trades in *futures contract options*: (a) the type and number of *futures contract options*, (b) the premium, (c) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*, (d) the declaration date, and (e) the striking price, and (iv) in the case of trades in mortgage-backed securities, and subject to the proviso below: (a) the original principal amount of the trade, (b) the description of the security (including interest rate and maturity date), (c) the remaining principal amount (RPA) factor, (d) the purchase/sale price per $100 of original principal amount, (e) the accrued interest, (f) the total settlement amount, and (g) the settlement date, provided that in the case of trades entered into from the second *clearing day* before month end to the fifth *clearing day* of the following month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in sub-clauses 3816(2)(iv)(a), 3816(2)(iv)(b), 3816(2)(iv)(d) and 3816(2)(iv)(g) and indicating that the information in sub-clauses 3816(2)(iv)(c), 3816(2)(iv)(e) and 3816(2)(iv)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the security is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required

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in subsection 3816(2), and (v) in the case of confirmations other than confirmations relating to trades involving *debt securities* and other over-the-counter traded securities: (a) where the confirmation is sent to a *retail client*: (I) the amount of each *transaction charge*, deferred sales charge or other charge in respect of the transaction, and (II) the total amount of all charges in respect of the transaction, (b) where the confirmation is sent to an *institutional client*: (I) the commission, if any, charged in respect of the transaction, and (vi) in the case of *debt securities*: (a) in the case of a purchase, where the *debt security* is a stripped coupon or a residual debt instrument: (I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and (II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other *debt securities* which are commonly regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed, (b) in the case of a purchase, where the *debt security* is neither a stripped coupon nor a residual debt instrument: (I) the yield to maturity calculated in a manner consistent with market conventions for the security traded, (II) where the *debt security* is subject to call prior to maturity through any means, the notation of "callable" must be included, and (III) where the *debt security* has a variable coupon rate, the notation "The coupon rate may vary." must be included, (c) where the *debt security* trade is not a primary market transaction and the trade confirmation is being sent to a *retail client*, either of the following: (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction, or (II) the total amount of any commission charged to the client by the *Dealer Member* and, if the *Dealer Member* applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

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"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.",

and

(vii) in the case of all over-the-counter traded securities other than *debt securities*, including contracts for difference and foreign exchange contracts, but excluding primary market transactions and over-the-counter *derivatives* with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market, and the trade confirmation is being sent to a *retail client*, either of the following:

(a) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,

(b) the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale).",

and

(viii) in the case of transactions involving securities of the *Dealer Member* or a *related issuer* of the *Dealer Member*, or in the course of a distribution to the public, securities of a *connected issuer* of the *Dealer Member*, such trade confirmation shall state that the securities are securities of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be,

and

(ix) in the case of a *Dealer Member controlled* by or affiliated with a financial institution, the relationship between the *Dealer Member* and the financial institution shall be disclosed on each trade confirmation issued in connection with a trade in securities of a mutual fund sponsored by the financial institution or a corporation *controlled* by or affiliated with the financial institution, except where the names of the *Dealer Member* and the mutual fund are sufficiently similar to indicate that they are *controlled* by or *affiliated* with the same financial institution,

and

(x) notwithstanding the provisions of this section 3816, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of a trade:

(a) in a *managed account*, provided that:

(I) prior to the trade, the client has consented in writing to waive the trade confirmation requirement,

(II) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,

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(III) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an exemption from any such *applicable laws* by the responsible *securities regulatory authority*, and (IV) where: (A) a *person* other than the *Dealer Member* manages the account: (i) a trade confirmation has been sent to the manager of the account, and (ii) the *Dealer Member* complies with section 3808, or (B) the *Dealer Member* manages the account: (i) the account is not charged any commissions or fees based on the volume or value of transactions in the account, (ii) the *Dealer Member* sends to the client a monthly statement that is in compliance with section 3808 and contains all of the information required to be contained in a confirmation under this section 3816 except: (a) the day and the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to *IIROC*, (b) the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade, (c) the name of the salesperson, if any, in the transaction, (d) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, and (e) must maintain and make available to the client or *IIROC*, upon request, the name of the *person* or company from or to or through whom the security was bought or sold, if acting as an agent in a trade upon an equity marketplace, (iii) the *Dealer Member* maintains the information not required to be in the monthly statement pursuant to sub-paragraph 3816(2)(x)(a)(IV)(B)(ii) and discloses to the client on the monthly statement that such information will be provided to the client on request. (b) In delivery against payment and receipt against payment trade accounts, provided that: (I) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *IIROC requirements* or *securities laws*,

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(II) the *Dealer Member* maintains an electronic audit trail of the trade under *IIROC requirements* or *securities laws*,

(III) prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*,

(IV) the client is either:

(A) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or

(B) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,

(V) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3816, and

(VI) the *Dealer Member* has not filed a report as required under section 4756 informing *IIROC* that it has not met the quarterly compliant trade percentage or has not filed a trade matching exception report as required under *securities laws* relevant to the trade, for a minimum of three consecutive quarters.

A client may terminate their trade confirmation waiver, referred to in sub-clause 3816(2)(x)(b), by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

3817. Puts, calls and other options

(1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the security and the number of units involved.

3818. Margin call records

(1) A *Dealer Member* must maintain a *record* of all margin calls whether such calls are made in writing, by telephone or other means of communication.

3819. Account transfer records

(1) Pursuant to Part B of Rule 4800, a *Dealer Member* must maintain a *record* of all communications concerning account transfers.

3820. – 3834. Reserved.

3835. Option of earlier date

(1) *Dealer Member*s have the option of providing clients with the following position *cost* and

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performance information:

(i) position *cost* information included in client account statements [Defintion of *cost* in subsection 3802(1) and clauses 3808(3)(vii) and 3808(3)(ix)],

(ii) position *cost* information included in the report on client positions held outside of the *Dealer Member* [Definition of *cost* in subsection 3802(1) and clauses 3809(2)(iii) and 3809(2)(vi)],

that is prepared as at a date earlier than December 31, 2015.

(2) *Dealer Members* have the option of providing clients with the following position *cost* and performance information:

(i) activity information included in the annual performance report [clauses 3810(2)(i) through 3810(2)(iv)], and

(ii) percentage return information included in the annual performance report [clause 3810(2)(v)],

that is prepared for a period that begins on a date earlier than July 15, 2015.

(3) Where the option in subsection 3835(1) is pursued, all of the position *cost* information referenced in clauses 3835(1)(i) and 3835(1)(ii) must be prepared for all similar clients as at the same date.

(4) Where the option in subsection 3835(2) is pursued, all of the activity and percentage return information referenced in clauses 3835(2)(i) and 3835(2)(ii) must be prepared for all similar clients as at the same date.

3836. – 3844. Reserved.

3845. Timing of the sending of documents to clients

(1) All confirmations, statements, reports and other documents that are required to be sent to clients under sections 3803 through 3819 must be sent promptly to clients.

(2) The following documents must be sent to *retail clients* together:

(i) performance report [section 3810], and

(ii) fee / charge report [section 3811].

(3) The following documents must be sent to *retail clients* within 10 days after the client account statement for the monthly or quarterly period ending on the same date is sent:

(i) report on client positions held outside of the *Dealer Member* [section 3809], and

(ii) performance report and fee/charge report [sections 3810 and 3811].

3846. – 3899. Reserved.

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RULE 3900

SUPERVISION

3901. Introduction

(1) Rule 3900 sets out the *Dealer Member's* obligation to supervise its business and operations. The rule is divided into six parts as follows:

Part A – General supervision requirements
[sections 3904 through 3918]

Part B – Supervision of all accounts
[sections 3925 through 3927]

Part C – Supervision of *retail client* accounts
[sections 3945 through 3948]

Part D – Supervision of i*nstitutional client* accounts
[sections 3950 and 3951]

Part E – Supervision of *order execution only accounts*
[section 3955]

Part F – Supervision of *options, futures contracts* and *futures contract options* trading accounts
[sections 3960 through 3968]

Part G - Supervision of *discretionary accounts* and *managed account*s
[sections 3970 through 3973]

(2) Appropriate supervision of all aspects of a *Dealer Member's* business and operations is a fundamental responsibility of the *Dealer Member*. The *Dealer Member's* policies and procedures that specifically address its supervision system must remain up-to-date at all times, based on current *IIROC requirements* and *applicable laws*.

(3) The *Dealer Member's* board of directors is responsible for ensuring that an appropriate supervision system is in place.

3902. – 3903. Reserved.

Part A – GENERAL SUPERVISION REQUIREMENTS

3904. Policies and procedures

(1) A *Dealer Member*'s policies and procedures must establish a supervisory system to supervise the activities of all its *employees* and *Approved Persons* that provides reasonable assurance they comply with I*IROC requirements* and *securities laws*.

(2) As part of its supervisory system, the *Dealer Member*, at a minimum, must:

(i) have policies and procedures that specifically address supervision of its *employees* and *Approved Persons*,

(ii) have policies and procedures relating to supervision that provide reasonable assurance of

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compliance with *IIROC requirements*, *securities laws* and *applicable laws,*

(iii) ensure all supervisory policies and procedures are in writing, and

(iv) amend its policies and procedures relating to supervision within a reasonable time after changes in *IIROC requirements*, or *securities laws* are made.

(3) A *Dealer Member* must communicate its policies and procedures to all relevant *employees* and *Approved Persons* and must:

(i) provide its sales and supervisory *employees* and *Approved Persons* with the *Dealer Member's* sales practices policies and procedures relevant to their functions,

(ii) obtain and record acknowledgements from all sales and supervisory *employees* and *Approved Persons* that they have read and understood the policies and procedures relevant to their respective roles and responsibilities,

(iii) provide introductory and continuing education to all *Approved Persons* on the *Dealer Member's* policies and procedures and any relevant changes to them,

(iv) communicate information relating to *IIROC requirements and applicable laws*, to all sales *employees* and other *Approved Persons* to whom it is relevant,

(v) have policies and procedures that specifically address the method and timing of the distribution of compliance related notices,

(vi) promptly communicate changes in its policies and procedures to all relevant *employees* and *Approved Persons*, and

(vii) have procedures to provide reasonable assurance that each *employee* and *Approved Person* understands their responsibilities under the *Dealer Member's* policies and procedures.

3905. Supervisory personnel and resources

(1) A *Dealer Member* must assign sufficient personnel and commit adequate resources necessary to fully and properly apply and enforce its policies and procedures.

(2) A *Dealer Member* must appoint as many *Supervisors* as necessary to properly supervise its *employees* and *Approved Persons* taking into account the scope and complexity of the *Dealer Member's* business.

(3) A *Dealer Member* must designate as many *Executives* as necessary to ensure compliance with *IIROC's requirements,* taking into account the scope and complexity of the *Dealer Member's* business.

(4) A *Dealer Member* must designate *Supervisors* and *Executives*, with the qualifications and authority necessary to fully carry out the responsibilities assigned to them.

(5) A *Dealer Member* must take reasonable steps to ensure all of its *Supervisors* and *Executives* are fully proficient and understand the products that *employees* and *Approved Persons* under their supervision trade in or advise on, as well as the services these *employees* and *Approved Persons* provide, to the degree necessary to properly supervise those *employees* and *Approved Persons*.

(6) A *Dealer Mem*ber must have procedures in place that ensure that *Supervisors* are properly

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performing their supervisory functions.

3906. Responsibilities of the Supervisor

(1) Each *Supervisor* must fully and properly supervise each *employee* and *Approved Person* under their authority in accordance with:

(i) the supervisory responsibilities assigned to the *Supervisor*,

(ii) the *Dealer Member's* policies and procedures, and

(iii) *IIROC requirements* and *securities laws*.

3907. Delegation of supervisory tasks

(1) A *Supervisor* may delegate supervisory tasks and procedures, but not the responsibility for their performance.

(2) Any delegation of supervisory tasks must not be contrary to *IIROC requirements*, *securities laws* and *applicable laws*.

(3) A delegate must be qualified to perform the assigned tasks by virtue of registration, training or experience.

(4) The *Supervisor* must:

(i) inform the delegate of the tasks delegated to them and what is expected of them in the performance of the delegated tasks, in writing,

(ii) ensure that the delegate adequately performs the delegated tasks, and

(iii) establish reporting mechanisms for issues arising from the performance of delegated tasks.

(5) The *Dealer Member* must maintain a record of the terms of the delegation, as well as the *Supervisor's* follow up and review of the delegated tasks.

(6) The *Dealer Member* must inform the *Supervisor* of specific functions that cannot be delegated.

3908. Supervision records

(1) A *Dealer Member* must maintain a record of the names of *Supervisors*, their supervisory responsibilities and the date each *Supervisor* was designated.

(2) A *Dealer Member* must have a system in place to record the review and approval, conducted by any *Supervisor* that is required under *IIROC requirements*.

(3) A *Dealer Member* must maintain adequate *records* of supervisory activity, including on-site branch reviews, compliance issues identified and the resolution of such issues.

(4) Where supervision *records* are kept at a branch office, the *Dealer Member* must conduct periodic on-site reviews of branch office supervision and record keeping.

(5) The *records* set out in section 3908 must be kept for the period set out in section 3803.

3909. Responsibilities of the Executive

(1) Each *Executive* must supervise and direct the activities of the *Dealer Member*, and its *employees*

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and *Approved Persons*, in accordance with the areas of its responsibility, to provide reasonable assurance of compliance with *IIROC requirements* and *securities laws*.

3910. Responsibilities of the Ultimate Designated Person

(1) The *Ultimate Designated Person* is responsible to *IIROC* for the conduct of the *Dealer Member* and the supervision of its *employees* and *Approved Persons*.

(2) The *Ultimate Designated Person* must:

(i) supervise the activities of the *Dealer Member,* and the activities of each *individual* acting on the *Dealer Member's* behalf, that are directed towards ensuring compliance with *IIROC requirements* and *securities laws*, and

(ii) promote compliance by the *Dealer Member*, and each *individual* acting on its behalf, with *IIROC requirements* and *securities laws*.

3911. Reserved.

3912. Responsibilities of the Chief Compliance Officer

(1) The *Chief Compliance Officer* must:

(i) establish and maintain policies and procedures to assess compliance by the *Dealer Member* and *individuals* acting on its behalf with *IIROC requirements* and *securities laws,* other than those required under subsection 3913(1),

(ii) monitor and assess compliance by the *Dealer Member* and *individuals* acting on its behalf with *IIROC requirements* and *securities laws*, and

(iii) report to the *Ultimate Designated Person* as soon as possible if there is any indication that the *Dealer Member* or any *individual* acting on its behalf may be in non-compliance with *IIROC requirements* or *securities laws*, other than those required under subsection 3913(1), and:

(a) the non-compliance creates a reasonable risk of harm to a client,

(b) the non-compliance creates a reasonable risk of harm to the capital markets, or

(c) the non-compliance is part of a pattern of non-compliance.

(2) The *Chief Compliance Officer* must have access to the *Ultimate Designated Person* and the *Dealer Member's* board of directors as necessary to carry out his or her responsibilities.

3913. Responsibilities of the Chief Financial Officer

(1) The *Chief Financial Officer* must:

(i) establish and maintain policies and procedures for the *Dealer Member* relating to financial *IIROC requirements,*

(ii) monitor adherence to the *Dealer Member's* policies and procedures to provide reasonable assurance that the *Dealer Member* complies with the financial *IIROC requirements*,

(iii) identify any breaches of approved capital usage limits and report them in accordance with section 4116; and

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(iv) report to the *Ultimate Designated Person* as soon as possible if there is any indication that the *Dealer Member* or any *individual* acting on its behalf may be in non-compliance with the financial requirements of *IIROC* and:

(a) the non-compliance creates a reasonable risk of harm to a client,

(b) the non-compliance creates a reasonable risk of harm to the capital markets, or

(c) the non-compliance is part of a pattern of non-compliance.

(2) The *Chief Financial Officer* must have access to the *Ultimate Designated Person* and the *Dealer Member's* board of directors as necessary to carry out his or her responsibilities.

3914. Reserved.

3915. Report to Dealer Member's board of directors

(1) At least annually, the *Chief Compliance Officer* must provide a written report to the *Dealer Member's* board of directors for the purpose of assessing compliance by the *Dealer Member*, and its *employees* and *Approved Persons*, with *IIROC requirements* and *securities laws,* other than those required under subsection 3915(2).

(2) At least annually, the *Chief Financial Officer* must provide a written report to the *Dealer Member's* board of directors for the purpose of assessing compliance by the *Dealer Member*, and its *employees* and *Approved Persons*, with the financial *IIROC requirements* and *securities laws,* as necessary.

(3) The *Dealer Member's* board of directors must review the reports and recommendations submitted to it pursuant to section 3915 to determine the appropriate action to be taken to remedy any compliance deficiencies that are identified and must ensure that such action is taken.

(4) The *Dealer Member's* board of directors must maintain *records* of the actions it determines necessary to correct compliance problems and the monitoring done to ensure that the actions are carried out.

3916. Governance document

(1) A *Dealer Member* must file with *IIROC*:

(i) a copy of a current governance document that sets out the organizational structure and reporting relationships required under Rule 3900, and

(ii) notice of any material changes to the organizational structure and reporting relationships set out in the governance document.

3917. Annual supervisory review of financial and operational policies and procedures

(1) A *Dealer Member* must ensure that a supervisory review of its financial and operational policies and procedures is completed at least annually and that any deficiencies are identified and corrected.

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3918. Supervision of shared office premises

(1) A *Dealer Member* must have policies and procedures that specifically address the supervision of *shared office premises*, as contemplated by section 2216,to provide reasonable assurance:

(i) compliance with *IIROC requirements*, and

(ii) the client has a clear understanding of which entity they are dealing with.

(2) A *Dealer Member* must have:

(i) adequate supervisory resources to implement its policies and procedures,

(ii) a system for communicating *IIROC requirements* relating to *employees* and *Approved Persons* at the *shared office premises*, and

(iii) a process providing reasonable assurance that *IIROC requirements* relating to *shared office premises* are understood and implemented.

3919. – 3924. Reserved.

Part B – SUPERVISION OF ALL ACCOUNTS

3925. Supervision by designated persons

(1) A *Dealer Member* must effectively supervise account activity and must use due diligence to provide reasonable assurance compliance with *IIROC requirements*, *securities laws* and *applicable laws*.

(2) A *Dealer Member* must designate one or more *Supervisors* to be responsible for approving the opening of new accounts and for establishing and maintaining procedures relating to account supervision and supervising account activity, in accordance with *IIROC requirements*.

(3) The *designated Supervisor* must be familiar with applicable *IIROC requirements*, *securities laws* and *applicable laws* and the *Dealer Member's* policies and procedures.

(4) A *Dealer Member* must appoint one or more alternate *Supervisors* as required, to the *Supervisors* designated in subsection 3925(2), to supervise the *Dealer Member's* business and to assume the responsibility of the *designated Supervisor* in his or her absence.

3926. Account supervision policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address account supervision, which includes its standards for the review and supervision of account activity.

(2) A *Dealer Member*'s policies and procedures must specifically address the *Dealer Member's* obligations to:

(i) identify clients that present a high risk to the *Dealer Member*,

(ii) identify clients that present a high risk of conducting improper activities in the securities markets, and

(iii) comply with all anti-money laundering and terrorist financing requirements under

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applicable laws.

(3) All policies and procedures relating to the supervision of accounts held at a *Dealer Member* and any substantive amendments to such policies and procedures, must be approved by the *Dealer Member's Chief Compliance Officer* or another appropriate *Executive.*

(4) A *Dealer Member* must provide all supervisory staff with written:

(i) procedures to be followed in reviewing account activity, and

(ii) confirmation of the *Dealer Member's* expectations of supervisory staff, with respect to their supervisory roles and responsibilities.

(5) A *Dealer Member*'s policies and procedures must include controls for accessing and amending client *records*.

(6) A *Dealer Member* must periodically review the policies and procedures used at its head office and its branch offices to provide reasonable assurance the policies and procedures continue to be effective and reflect current legislative and regulatory requirements, as well as industry practices.

3927. Reviews of account activity

(1) A *Dealer Member* must review account activity as required by *IIROC requirements* and must use due diligence to provide reasonable assurance that account activity complies with *IIROC requirements*, *securities laws* and other *applicable laws* and the *Dealer Member's* policies and procedures.

(2) A *Dealer Member* must record and keep evidence of completed supervisory reviews, including details of inquiries about issues and their resolution, for the period required in section 3803.

(3) A *Dealer Member* must establish and follow procedures for the implementation of additional supervisory measures applicable to *Approved Persons* with a history of regulatory infractions or questionable conduct.

3928. – 3944. Reserved.

Part C – SUPERVISION OF RETAIL CLIENT ACCOUNTS

3945. Daily and monthly trade supervision

(1) A *Dealer Member* that has *retail client* accounts must have policies and procedures that specifically address daily and monthly supervision of trading activity in *retail client* accounts. These policies and procedures must outline actions to deal with problems or issues identified by the review.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading, the policies and procedures relating to the supervision of *retail client* accounts must specifically address the detection of:

(i) unsuitable trading,

(ii) undue concentration of securities in a single account or across accounts,

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(iii) excessive trading,
(iv) trading in restricted securities,
(v) conflict of interest between *Registered Representative, Investment Representative, Portfolio Manager* and *Associate Portfolio Manager* and client trading activity,
(vi) excessive trade transfers and trade cancellation indicating possible unauthorized trading,
(vii) inappropriate or high risk trading strategies,
(viii) deterioration of the quality of client holdings in an account,
(ix) excessive or improper crosses of securities between clients,
(x) improper or excessive *employee* trading,
(xi) front running,
(xii) account number changes,
(xiii) late payment,
(xiv) outstanding margin calls,
(xv) undisclosed short sales,
(xvi) *manipulative and deceptive activities*, and
(xvii) insider trading.

(3) The *Dealer Member* must develop policies and procedures that specifically address supervising *retail client* accounts where a commission is not charged for trades placed by or for a client, such as fee based accounts. These policies and procedures must:
(i) address account activity review *IIROC requirements*, and
(ii) use criteria other than commission levels.

(4) The *Dealer Member* must specifically designate the following *retail client* accounts for supervision purposes:
(i) *non-client accounts*,
(ii) *discretionary accounts*,
(iii) *managed accounts*,
(iv) registered accounts, and
(v) restricted accounts.

3946. Additional supervisory responsibilities

(1) In addition to transactional activity, the *Dealer Member*'s policies and procedures must specifically address identifying, dealing with and informing the appropriate *Supervisors* of other client related matters, including:
(i) client complaints,
(ii) cash account violations,
(iii) transfers of funds and securities between unrelated accounts or between *non-client accounts* and client accounts or deposits from *non-client accounts* to client accounts, and

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(iv) trading while the account is under margined.

3947. Supervision of new Registered Representatives and Investment Representatives

(1) A *Dealer Member* must closely supervise *Registered Representatives* and *Investment Representatives* dealing with *retail clients* for six months after approval, as set out in the *Registered Representative* / *Investment Representative* Monthly Supervision Report.

(2) Subsection 3947(1) does not apply if:

(i) the *Registered Representative* was previously approved, for six months or more, to advise on trades for *retail clients* for a securities firm that is a member of a *SRO* or a *recognized foreign self-regulatory organization*, or

(ii) the *Investment Representative* was previously approved for six months or more to advise on trades or to trade for *retail clients* for a securities firm that is a member of a *SRO* or a *recognized foreign self-regulatory organization.*

(3) A *Dealer Member* must complete and keep a copy of every *Registered Representative* / *Investment Representative* Monthly Supervision Report for *IIROC's* inspection.

3948. Supervision of suitability obligations

(1) A *Dealer Member* must supervise each *Registered Representative*, *Investment Representative*, *Portfolio Manager* and *Associate Portfolio Manager* to confirm that they are complying with their responsibilities relating to the suitability obligations to *retail clients* under Rule 3400.

3949. Reserved.

Part D – SUPERVISION OF INSTITUTIONAL CLIENT ACCOUNTS

3950. Supervisory policies and procedures for institutional client accounts

(1) A *Dealer Member* that offers *institutional client* accounts must have policies and procedures that specifically address the supervision and review of trading activity in *institutional clients*' accounts. These policies and procedures must outline the actions to deal with problems or issues identified from supervisory reviews.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations, including any relevant obligations relating to trading in securities, *debt securities*, *options*, *futures contracts* and *futures contract options,* the policies and procedures relating to the supervision of *institutional client* accounts must specifically address detecting improper or suspicious account activity including:

(i) *manipulative and deceptive activities*,

(ii) trading in securities on the *Dealer Member's* restricted list,

(iii) front running by *employee* or proprietary accounts,

(iv) trading in securities that have restrictions on their transfer, and

(v) exceeding position or exercise limits on *derivative* products.

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3951. Supervision of suitability obligations

(1) A *Dealer Member* must supervise each *Registered Representative*, *Investment Representative*, *Portfolio Manager* and *Associate Portfolio Manager* to confirm their compliance with their responsibilities relating to the suitability obligations to *institutional clients* under section 3403.

3952. –3954. Reserved.

Part E – SUPERVISION OF ORDER EXECUTION ONLY ACCOUNTS

3955. Supervision of order execution only accounts

(1) A *Dealer Member* that is approved by *IIROC* to provide *order execution only accounts* within a separate legal entity or within a separate business unit must have policies and procedures in place to:

(i) meet the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading in securities, *debt securities, options*, *futures contracts* and *futures contract options,*

(ii) ensure that clients are not provided with recommendations as a result of the client having an account with:

(a) a separate legal entity of the *Dealer Member*,

(b) a separate business unit of the *Dealer Member,* or

(c) the *Dealer Member* itself, and

(iii) to review customer trading and accounts for those concerns listed in Rule 3900, other than those relating to the suitability requirements.

(2) The *Dealer Member*, or separate business unit of the *Dealer Member*, policies and proceduresrelating to review of client trading must specifically address the risks associated with the method of order entry and the absence of intermediation by *employees* of the *Dealer Member*.

(3) The *Dealer Member* or separate business unit of the *Dealer Member* must maintain an audit trail of all supervisory reviews as required in Rule 3900.

(4) 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 section 3955.

3956. – 3959. Reserved.

Part F –SUPERVISION OF OPTIONS, FUTURES CONTRACTS AND FUTURES CONTRACT OPTION TRADING ACCOUNTS

3960. Supervision of options accounts

(1) A *Dealer Member* that allows trading in *options* must appoint a *designated Supervisor* to supervise

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its *options* activity.

(2) The *designated Supervisor* must have the qualifications and experience required to supervise the *Dealer Member's options* activity.

(3) The *Dealer Member* must appoint one or more alternate *Supervisors* if necessary to ensure continuous supervision of its *options* activity.

(4) An alternate *Supervisor* must assume all or part of the *designated Supervisor's* responsibilities if:

(i) the *designated Supervisor* is absent or unable to carry out his or her duties, or

(ii) a *Dealer Member's* trading activity requires additional qualified *individuals* to supervise the *Dealer Member's option* contract business.

3961. Responsibility of designated Supervisors for options accounts

(1) The *designated Supervisor* is responsible for:

(i) approving new *options* accounts, and

(ii) ensuring that the handling of clients' *options* account trading complies with *IIROC requirements*.

3962. Supervision of retail options accounts

(1) The *designated Supervisor* is responsible for ensuring that all recommendations made for an account are and continue to be suitable for the client.

(2) The *Dealer Member* must ensure that only *Registered Representatives*, *Investment Representatives, Portfolio Managers* and *Associate Portfolio Managers* that are also *options* qualified trade in or advise on *options*.

(3) On a daily and monthly basis, the *designated Supervisor* must review all *options* accounts that are designated as *discretionary accounts* and *managed accounts*.

(4) The *Dealer Member* must have *policies* and procedures that specifically address notifying clients of:

(i) approaching expiry dates,

(ii) significant changes in *options* resulting from changes in the underlying interest,

(iii) any changes in the *Dealer Member's* business policy, and

(iv) any new developments in the trading or regulation of *options* that may impact clients.

(5) The *Dealer Member* must have policies and procedures that specifically require the d*esignated Supervisor* to approve the solicitation of clients to use *options* programs, as well as clients' actual use of *options*.

3963. Supervision of retail options account trading activity

(1) In addition to *IIROC requirements* relating to account supervision, the *Dealer Member's* policies and procedures must specifically address reviewing *option* trading activity to detect the following:

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(i) the exceeding of position or exercise limits, and

(ii) exposures arising out of uncovered *option* positions.

(2) Accounts must be selected for review using criteria that provides reasonable assurance of detecting improper trading activity.

3964. Supervision of futures contract and futures contract options accounts

(1) A *Dealer Member* that trades or advises in respect of *futures contract* or *futures contract options* must appoint a *designated Supervisor* to supervise its *futures contract* and *futures contract options* activity.

(2) The *designated Supervisor* must have the qualifications and experience required to supervise the *Dealer Member's futures contract* or *futures contract options* activity.

(3) The *Dealer Member* must appoint one or more alternate *Supervisors* if necessary to ensure continuous supervision of its *futures contract* and *futures contract options* activity.

(4) An alternate *Supervisor* must assume all or some of the *designated Supervisor's* responsibilities if:

(i) the *designated Supervisor* is absent or unable to carry out his or her duties, or

(ii) a *Dealer Member's* trading activity requires additional qualified *individuals* to supervise the *Dealer Member's futures contract* and *futures contract options* business.

3965. Responsibility of designated Supervisors for futures contract and futures contract options accounts

(1) For *futures contract* accounts and *futures contract option* accounts, the respective *designated Supervisors* are responsible for:

(i) approving new *futures contract* accounts and *futures contract options* accounts, and

(ii) ensuring the handling of clients' *futures contract* and *futures contract options* account trading complies with *IIROC requirements*.

3966. Access to Approved Persons qualified in futures contract and futures contract options

(1) The *Dealer Member*'s policies and procedures must specifically address that *futures contract* and *futures contract options* clients have access, during normal business hours, to a *Registered Representative*, *Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* qualified to deal in *futures contracts* and *futures contract options*.

3967. Supervision of retail futures contract and futures contract options accounts

(1) The *designated Supervisor* is responsible for:

(i) reviewing and approving client loss limits when they are set annually, taking into consideration previous losses, and

(ii) ensuring that all recommendations made for an account are and continue to be suitable for the client.

(2) The *Dealer Member* must ensure that only *futures contract* and *futures contract options* qualified

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Registered Representatives, *Investment Representatives*, *Portfolio Managers* and *Associate Portfolio Managers* trade in or advise on *futures contracts* or *futures contract options*.

(3) The *designated Supervisor* must review all discretionary and managed *futures contract* and *futures contract options* accounts on a daily and monthly basis.

(4) The *Dealer Member*'s policies and procedures must specifically address proper handling of positions with pending delivery months.

(5) The *Dealer Member* must establish procedures to notify clients of:

(i) any changes in the *Dealer Member's* business policy, and

(ii) new developments in trading and regulation of *futures contract*s and *futures contract options* that may impact clients.

(6) The *Dealer Member*'s policies and procedures must specifically require the *designated Supervisor* to approve the solicitation of clients to use futures programs as well as clients' use of *futures contracts* or *futures contract options*.

3968. Supervision of retail futures contract and futures contract options trading activity

(1) The *Dealer Member* must review all *futures contracts* and *futures contract options* trading to detect the following:

(i) excessive day trading resulting in trading large numbers of contracts,

(ii) trading while the account is under margined,

(iii) trading beyond margin or credit limits,

(iv) cumulative losses exceeding risk limits,

(v) position and exercise limits that have been exceeded,

(vi) speculative trading in hedge accounts, and

(vii) exposure to delivery through holding contracts into delivery month.

3969. Reserved.

Part G –SUPERVISION OF DISCRETIONARY ACCOUNTS AND MANAGED ACCOUNTS

3970. Supervision for discretionary accounts

(1) In addition to *IIROC requirements* relating to account supervision, the *designated Supervisor* responsible for *discretionary accounts* must also review the financial performance of each *discretionary account* at least monthly.

(2) As part of the review in subsection 3970(1), the *designated Supervisor* must also review *discretionary accounts* to determine if the *Registered Representative*, authorized to affect trades for the *discretionary account* should continue to do so, based on the *designated Supervisor's* assessment of the *discretionary account's* financial performance.

(3) The *designated Supervisor* responsible for *discretionary accounts* must not delegate the performance of the reviews required in subsections 3970(1) and 3970(2) to any other *person*.

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(4) A *designated Supervisor* must review any discretionary order initiated in a *discretionary account* by a *Registered Representative* prior to the order being entered unless:

(i) the *Registered Representative* has been approved as a *Portfolio Manager,* or

(ii) the *Registered Representative* is also an *Executive*, and

(iii) the *designated Supervisor* reviews the order no later than one *business day* after the trade was made.

(5) A *designated Supervisor* must review any discretionary order initiated for a *discretionary account* by an *Executive* who is approved as a *Portfolio Manager,* no later than the day after the trade was made.

3971. Supervision of managed accounts

(1) A *Dealer Member* that has *managed accounts* must:

(i) designate a *Supervisor* to be responsible for the supervision of *managed accounts*, and

(ii) have policies and procedures that specifically address the supervision of *individuals* responsible for handling *managed accounts* to provide reasonable assurance of compliance with *IIROC requirements*.

(2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading in securities, *debt securities*, *options*, *futures contracts* and *futures contract options*, the *Dealer Member's* policies and procedures dealing with the supervision of *managed account*s must specifically address:

(i) identifying when a *Portfolio Manager* or sub-advisor, as described in section 3279, has contravened *managed account* conflict of interest related requirements set out in section 3280, and

(ii) ensuring fairness in the allocation of investment opportunities among its *managed accounts*.

(3) The *Dealer Member's* policies and procedures dealing with the supervision of *managed accounts* must specifically address the direct supervision of any *Associate Portfolio Manager* that provides discretionary management to *managed accounts,* including a prohibition on the *Associate Portfolio Manager* providing advice unless the advice has been approved by a *Portfolio Manager* at the *Dealer Member* prior to the *Associate Portfolio Manager* providing the advice.

(4) Supervision of the *Associate Portfolio Manager* must be conducted by:

(i) a *Portfolio Manager* at the *Dealer Member* or another *Dealer Member* who is authorized to provide discretionary management to *managed accounts* and who is not in the period of close supervision, or

(ii) a *person* registered as an advisor under *securities laws* who has entered into a contract with the *Dealer Member* to provide the supervision.

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3972. Managed account committee

(1) A *Dealer Member* that has *managed accounts* must establish a *managed account* committee that includes at least one *designated Supervisor* responsible for *managed accounts* and the *Chief Compliance Officer*. The committee must, at least annually:

(i) review the *Dealer Member's* policies and procedures dealing with the supervision of *managed accounts*, and

(ii) recommend to senior management appropriate actions necessary to achieve compliance with *IIROC requirements* and *securities laws*, applicable to *managed accounts*.

3973. Managed account review

(1) In addition to *IIROC requirements* relating to account supervision, the *designated Supervisor* under clause 3970(1)(i) must review each *managed account* quarterly to provide reasonable assurance that:

(i) the client's investment objectives are being pursued, and

(ii) the handling of each of the *managed accounts* complies with *IIROC requirements*.

(2) If the investment decisions for a *managed account* are made centrally and apply to a number of *managed accounts*, the quarterly review may be done at an aggregate level, subject to minor variations to allow for client directed investment restrictions and the timing of client cash flows into the *managed account*.

3974. – 3999. Reserved.

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RULE 4100

GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

4101. Introduction

(1) Rule 4100 sets out the following *Dealer Member* general financial requirements:

Part A - Minimum capital level and related requirements
[sections 4110 through 4119]

Part B - Early warning tests and related requirements
[sections 4130 through 4138]

Part C - Regulatory financial report filing requirements
[sections 4150 through 4153]

Part D - Appointment of auditors and audit requirements
[sections 4170 through 4192]

4102. - 4109. Reserved.

Part A - MINIMUM CAPITAL LEVEL AND RELATED REQUIREMENTS

4110. Introduction

(1) Part A of Rule 4100 sets out general *Dealer Member IIROC requirements* for:

(i) maintaining at all times a positive *risk adjusted capital* amount,

(ii) averting, reporting and remedying any negative *risk adjusted capital* situations,

(iii) calculating its current *risk adjusted capital* amount,

(iv) maintaining and utilizing a capital adequacy reporting system, and

(v) consolidating its financial position reporting with *related companies*.

4111. Maintaining a positive risk adjusted capital amount

(1) A *Dealer Member* must at all times maintain a *risk adjusted capital* amount of greater than zero.

4112. Negative risk adjusted capital and other early warning test failure situations

(1) The *Chief Financial Officer* and *Ultimate Designated Person* must take prompt action to:

(i) avert or remedy any projected or actual negative *risk adjusted capital* situations,

(ii) report to *IIROC* any actual negative *risk adjusted capital* situations,

(iii) report to *IIROC* any early warning test failure situations that could require the *Dealer Member* to be designated in early warning level 1 or level 2, and

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(iv) report to *IIROC* any circumstances from which it should be apparent that there would be early warning test failures that could require the *Dealer Member* to be designated in early warning level 1 or level 2 if the *Dealer Member* had complied with the requirements of Rule 4100 and performed the early warning test calculations.

4113. Calculating current risk adjusted capital amount - general requirements

(1) A *Dealer Member* must calculate its *risk adjusted capital* amount according to the requirements specified in Form 1 and any other *IIROC requirements*.

(2) A *Dealer Member* must know its current *risk adjusted capital* amount by computing it as often as necessary to ensure it has adequate regulatory capital at all times. The *Dealer Member* must also comply with weekly, monthly and annual calculation and documentation requirements in Rule 4100.

4114. Calculating current capital position - weekly documentation

(1) At least weekly, but more frequently if required (for instance, the *Dealer Member* is close to violating an early warning test or volatile market conditions exist), the *Chief Financial Officer* or designate must document that he or she has:

(i) received management reports produced by the *Dealer Member's* accounting system showing information relevant to estimating the *Dealer Member's risk adjusted capital* amount,

(ii) obtained other information about items that, while perhaps not yet recorded in the accounting system, are likely to significantly affect the *Dealer Member's risk adjusted capital* amount (for instance, bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements),

(iii) calculated the *Dealer Member's risk adjusted capital* amount, compared it to planned and prior period capital levels, and reported adverse trends or variances to the *Ultimate Designated Person*,

(iv) performed the early warning liquidity and capital test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has or may have violated any of these tests, and

(v) performed the early warning profitability test calculations for the *Dealer Member* where the *Dealer Member* has experienced a significant month-to-date loss, and determined whether or not the *Dealer Member* has or may have violated this test.

4115. Calculating current capital position - monthly documentation and reconciliation

(1) A *Dealer Member* must generate monthly trial balances and prepare regulatory capital computations based on its current ledger accounts to:

(i) check on status and accuracy of those ledger accounts, and

(ii) keep itself informed of its *risk adjusted capital* amount as required under Part A of Rule

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4100.

(2) The *Chief Financial Officer* or designate must document that he or she has at least monthly, performed the early warning liquidity, capital and profitability test calculations for the *Dealer Member* and determined whether or not the *Dealer Member* has violated this test.

(3) The preliminary month-end estimate of the *Dealer Member's risk adjusted capital* amount must be reconciled to the final *risk adjusted capital* amount reported as part of the *Dealer Member's* monthly financial report. Material discrepancies must be investigated and steps taken to avoid re-occurrence.

4116. Dealer Member capital adequacy reporting system - adequate policies and procedures

(1) A *Dealer Member* must:

(i) have policies and procedures that specifically address timely, complete and accurate *records*,

(ii) maintain a capital adequacy reporting system:

(a) based on timely, complete and accurate accounting *records*,

(b) that reflects projected capital requirements resulting from current and planned business activities in each of its major functional areas (for instance, capital markets, principal trading, borrowing/lending),

(c) that includes senior management approved capital usage limits for each of these functional areas that provides for reasonable assurance its combined operations maintain adequate intra-day and end of day *risk adjusted capital* amounts, and

(d) that identifies and informs senior management of breaches of approved capital usage limits. The *Chief Financial Officer* is responsible for identifying any breaches and reporting them to the *Dealer Member's* appropriate *Executives*,

(iii) monitor and act on information produced by its capital adequacy reporting system so that it maintains at all times a positive *risk adjusted capital* amount as prescribed by *IIROC requirements*,

(iv) identify and implement changes, on an ongoing basis, to its capital adequacy reporting system required to reflect developments in its business or in regulatory requirements, and

(v) perform and document, at least annually, a supervisory review of its capital adequacy reporting system.

(2) A *Dealer Member's Chief Financial Officer* must continuously monitor the *Dealer Member's risk adjusted capital* amount to ensure that the *Dealer Member* maintains at all times a positive *risk adjusted capital* amount as prescribed by *IIROC requirements.*

4117. Consolidation of financial position with related companies

(1) In calculating its *risk adjusted capital*, a *Dealer Member* may consolidate its financial position with the financial position of any of its *related companies* if:

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(i) *IIROC* has provided the *Dealer Member* with prior written approval of the consolidation,

(ii) the *Dealer Member* has guaranteed the obligations of the *related company* and the *related company* has guaranteed the obligations of the *Dealer Member*,

(iii) the *guarantees* are:

(a) in a form acceptable to *IIROC*, and

(b) unlimited in amount,

and

(iv) the consolidation meets the requirements in subsection 4117(2).

(2) A *Dealer Member* consolidating its financial position with a *related company* under subsection 4117(1) must comply with the following requirements or with other requirements acceptable to *IIROC*:

(i) eliminate inter-company accounts between the *Dealer Member* and the *related company*,

(ii) eliminate any minority interests in the *related company* from the *Dealer Member's* capital calculation, and

(iii) combine *Dealer Member* and *related company* financial information prepared as at the same date.

4118. Options for calculating risk adjusted capital available to well-capitalized Dealer Members

(1) A *Dealer Member*, whose *risk adjusted capital*, *early warning excess* and *early warning reserve* amounts are substantially in excess of that required under *IIROC requirements*, may apply requirements more stringent than *IIROC* capital computation requirements and thereby omit certain documentation in support of the computation. For example, when calculating *risk adjusted capital*:

(i) inventories can be grouped into broader margin categories and maximum margin rates applied,

(ii) margin requirement reductions for offset positions recognized elsewhere in *IIROC requirements* can be ignored, and

(iii) assets partly allowable or of questionable value can be excluded entirely.

4119. Dealer Member guarantees

(1) Any *guarantee* provided by a *Dealer Member* must be of a fixed or determinable amount, unless the *guarantee* is given to a *related company* in accordance with section 2206.

4120. - 4129. Reserved.

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Part B - EARLY WARNING TESTS AND RELATED REQUIREMENTS

4130. Introduction

(1) Part B of Rule 4100 describes the early warning system that alerts *IIROC* to a *Dealer Member's* financial or operational problems. It also sets out the process *IIROC* follows and the requirements that *Dealer Members* must comply with to resolve *early warning test violation* situations before they worsen.

(2) A *Dealer Member* has a responsibility to:

(i) monitor for *early warning test violations*,

(ii) avoid the potential for *early warning test violations*, and

(iii) report *early warning test violations* to *IIROC* when they occur.

4131. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4100:

"average monthly loss"	The sum of the *Dealer Member's* monthly *profit* and *loss* amounts for a particular period divided by the number of months in the period and the result is a loss.
"early warning test violation"	The *Dealer Member* has failed an early warning test as set out in Schedules 13 and 13A of Form 1.
"loss"	The *Dealer Member's* loss, if any, for early warning test purposes as set out in Statement E of Form 1.
"profit"	The *Dealer Member's* profit, if any, for early warning test purposes as set out in Statement E of Form 1.

4132. Early warning designation, levels and tests

(1) A *Dealer Member* is designated as being in early warning level 1 or level 2 if at any time it has violated any one of the following tests:

Early warning tests	Early warning level 1	Early warning level 2
Liquidity test	*Dealer Member's early warning reserve* is less than zero.	*Dealer Member's early warning excess* is less than zero.
Capital test	*Dealer Member's risk adjusted capital* is less than five per cent of its *total margin required*.	*Dealer Member's risk adjusted capital* is less than two per cent of its *total margin required*.
Profitability test #1	*Dealer Member's* current month *risk adjusted capital* is less than six times but greater than or equal to three times the absolute value of	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *average monthly loss*, if any, for

	its *average monthly loss*, if any, for the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.	the six-month period ending with the current month, **and** *Dealer Member's* preceding month *risk adjusted capital* is less than six times the absolute value of its *average monthly loss*, if any, for the six-month period ending with the preceding month.
Profitability test #2	*Dealer Member's* current month *risk adjusted capital* is less than six times the absolute value of its *loss*, if any, for the current month.	*Dealer Member's* current month *risk adjusted capital* is less than three times the absolute value of its *loss*, if any, for the current month.
Profitability test #3	Not applicable	*Dealer Member's* current month *risk adjusted capital* is less than the absolute value of its *loss*, if any, for the three month period ending with the current month.
Frequency	Not applicable	*Dealer Member* has been designated as being in any early warning, excluding discretionary early warnings, three or more times in the preceding six months, **or** *Dealer Member* has failed an early warning level 1 profitability test and at the same time has also failed either an early warning level 1 liquidity or capital test.

4133. Early warning related requirements

(1) When a *Dealer Member* has been designated as being in early warning level 1 or level 2, because of an *early warning test violation* under section 4132, the following actions must be taken:

	Early warning level 1	Early warning level 2
Notifying IIROC in writing	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to *IIROC* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation,	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must immediately deliver a letter to *IIROC* detailing: (i) the early warning tests in section 4132 that have been violated, (ii) the identified problems that resulted in the test violation,

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		(iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 1 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Canadian Investor Protection Fund*.	(iii) the *Dealer Member's* proposed plan to rectify the problems identified, and (iv) the *Dealer Member's* acknowledgement that it is in early warning level 2 and that the restrictions in section 4135 apply. The *Dealer Member* must send a copy of the notification letter to its auditor and the *Canadian Investor Protection Fund*.	
	Meeting with IIROC	Not applicable	The *Dealer Member's Ultimate Designated Person* and *Chief Financial Officer* must meet with *IIROC* to present the *Dealer Member's* plan for rectifying the identified problems.	
	Taking required actions	The *Dealer Member* must: (i) file a monthly financial report required under section 4151 within 15 *business days* after the end of each month or on any earlier day that *IIROC* considers practicable, (ii) provide any other information that *IIROC* requests, and (iii) comply with the business restrictions in section 4135.	The *Dealer Member* must: (i) file a weekly capital report with the same information as a monthly financial report within five *business days* after the end of each week or on any earlier day that *IIROC* considers practicable, (ii) file a weekly report, in an *IIROC* prescribed form, of its aged *segregation* deficiencies and an outline of its plan to correct them according to sections 4321 through 4326, (iii) file a business plan for such period and covering such matters as *IIROC* specifies, (iv) file its next monthly financial report required under section 4151 within 10 *business days* after the end of each month or any earlier day that *IIROC* considers practicable, (v) provide any other information that *IIROC* requests, and (vi) comply with the business restrictions in section 4135.	
	Responding to IIROC's letter	*IIROC* will send a letter to a *Dealer Member* in early warning level 1 confirming that the *Dealer Member* has been designated as being in	*IIROC* will send a letter to a *Dealer Member* in early warning level 2 confirming that the *Dealer Member* has been designated as	

	early warning level 1 and requesting information from the *Dealer Member*. A *Dealer Member* will respond to *IIROC's* early warning letter within five *business days*: (i) with the requested information, **or** (ii) acknowledging it will submit the information promptly, **and** (iii) with an update on the *Dealer Member's* early warning situation if any material circumstances have changed. The *Dealer Member* must send copies of its response letter to its auditor and the *Canadian Investor Protection Fund*.	being in early warning level 2 and requesting information from the *Dealer Member*. A *Dealer Member* will respond to *IIROC's* early warning letter within five *business days*: (i) with the requested information, **or** (ii) acknowledging it will submit the information promptly, **and** (iii) with an update on the *Dealer Member's* early warning situation if any material circumstances have changed. The *Dealer Member* must send copies of its response letter to its auditor and the *Canadian Investor Protection Fund*.
On-site reviewing of the Dealer Member's procedures	*IIROC* will as soon as practicable: (i) conduct an on-site review of the *Dealer Member's* procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.	*IIROC* will as soon as practicable: (i) conduct an on-site review of the *Dealer Member's* procedures for monitoring capital on daily basis, and (ii) prepare a report as to the results of the review.
Reimbursing IIROC for costs	*IIROC* may require a *Dealer Member* to pay reasonable costs and expenses incurred to administer the *Dealer Member's* early warning situation under Rule 4100.	*IIROC* may require a *Dealer Member* to pay reasonable costs and expenses incurred to administer the *Dealer Member's* early warning situation under Rule 4100.

4134. Discretion to designate a Dealer Member as being in early warning

(1) *IIROC* may designate a *Dealer Member* as being in early warning level 1 or 2, if at any time, the condition of the *Dealer Member* is not satisfactory for any reason, including:

(i) financial or operating difficulties,

(ii) problems arising from a record-keeping conversion or significant changes in clearing methods,

(iii) issues related to being a new *Dealer Member*, or

(iv) lateness in any filing or reporting required by *IIROC*.

4135. Restrictions on a Dealer Member in early warning

(1) A *Dealer Member* designated as being in early warning level 1 or 2 must obtain *IIROC's* written consent before:

(i) reducing its capital in any way, including by share redemption, re-purchase or

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cancellation,

(ii) reducing any of its *IIROC* approved subordinated indebtedness,

(iii) incurring any direct or indirect loan, advance, bonus, dividend, capital or other payments or distributions of assets to any *Director*, *officer*, partner, shareholder, *related company*, *affiliate* or *associate*, or

(iv) incurring any commitments to increase its non-allowable assets.

4136. Additional restrictions

(1) *IIROC* may impose any of the following additional restrictions on a *Dealer Member* in early warning:

Early warning level 1	Early warning level 2
None	(i) Reducing the amount of clients' *free credit balances* that the *Dealer Member* or its *carrying broker* may use under Part C of Rule 4300, to an amount *IIROC* considers desirable. (ii) Prohibiting the *Dealer Member* from opening new branch offices, hiring any new *Registered Representatives, Investment Representatives*, *Portfolio Managers* or *Associate Portfolio Managers,* opening any new client accounts, or changing in any material way the *Dealer Member's* inventory positions.

(2) For the restrictions under early warning level 2 part (ii) of subsection 4136(1), *IIROC* must provide the *Dealer Member* with a written notice of the order imposing additional restrictions on the *Dealer Member*.

(3) Review of early warning level 2 prohibitions

(i) The *Dealer Member* may request a *hearing panel* review of a subsection 4136(2) order within three *business days* after release of the decision.

(ii) If a request for review is made, the *hearing* shall be held as soon as reasonably possible and no later than 21 days after the request for review, unless otherwise agreed by the parties. The *hearing panel* review shall be conducted in accordance with the requirements set out in Rule 9300.

(iii) If a *Dealer Member* does not request a review within the time period prescribed in clause 4136(3)(i), the subsection 4136(2) order becomes effective and final.

4137. Prohibited transactions

(1) A *Dealer Member* must not enter into any transaction that would cause the *Dealer Member* to be in early warning unless it first notifies *IIROC* in writing of its intention to do so and receives *IIROC's* written approval.

4138. Lifting an early warning designation

(1) A *Dealer Member* will remain designated as being in early warning level 1 or 2 until *IIROC* confirms in writing that the early warning designation has been lifted. *IIROC* will lift the early

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warning designation when the *Dealer Member* files a monthly financial report, or submits such other evidence or assurances, that satisfies *IIROC* that the *Dealer Member* has solved the problems that placed it in early warning.

4139. - 4149. Reserved.

Part C - REGULATORY FINANCIAL REPORT FILING REQUIREMENTS

4150. Introduction

(1) Part C of Rule 4100 sets out a *Dealer Member's* financial reporting obligations. Financial reporting enables *IIROC* to monitor a *Dealer Member's* financial position and compliance with *IIROC requirements* relating to regulatory capital, as well as to receive an early indication of any deterioration in that position.

4151. Dealer Member financial filings

(1) A *Dealer Member* must file:

(i) an audited Form 1 for its fiscal year within seven weeks following year-end, and

(ii) a monthly financial report for each calendar month within 20 *business days* following month-end,

in accordance with *IIROC requirements*.

4152. Extending deadline for financial filings

(1) A *Dealer Member* may request an extension of time for filing its monthly financial report by writing to *IIROC*.

(2) A *Dealer Member's auditor* may request an extension of time for filing the *Dealer Member's* annual Form 1 by writing to *IIROC*.

(3) *IIROC* may grant an extension under subsections 4152(1) and 4152(2) if it considers the request to be appropriate in the circumstances.

4153. Late filing fee

(1) A *Dealer Member* must pay a fee, even when an extension is granted, to *IIROC* if it does not file a document or information required under Part C of Rule 4100 within the time prescribed by *IIROC*.

4154. - 4169. Reserved.

Part D - APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS

4170. Introduction

(1) Part D of Rule 4100 sets out the minimum requirements for the appointment of auditors and for the conducting of audits. The audit requirements ensure that auditors test for specific financial

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and regulatory compliance issues and report any breaches of rules or standards to *IIROC*.

4171. Approved auditors

(1) *IIROC* annually approves, based on adopted criteria, a list of audit firms as panel auditors eligible to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

(2) *IIROC* may remove an audit firm from the approved list if the audit firm no longer meets the criteria referred to in subsection 4171(1).

4172. Dealer Member's auditor

(1) A *Dealer Member* must use an *IIROC* approved auditor to perform the audit of the *Dealer Member's* fiscal year Form 1 filing.

4173. Responsibilities of a Dealer Member's auditor

(1) The *Dealer Member's auditor* must:

(i) conduct an audit of the *Dealer Member's* fiscal year Form 1 filing, and

(ii) carry out procedures of sufficient scope during the audit to enable the auditor to express an opinion on the *Dealer Member's* fiscal year Form 1 filing.

4174. No limitation on scope or procedures

(1) Nothing in Rule 4100:

(i) limits the scope of the audit, or

(ii) allows the *Dealer Member's auditor* to omit any additional audit procedure that it considers necessary under the circumstances.

4175. Audit in accordance with Canadian Auditing Standards

(1) The *Dealer Member's auditor* must audit the *Dealer Member's* fiscal year Form 1 filing in accordance with Canadian Auditing Standards. The audit of a *Dealer Member* requires a substantive approach and must include a review of the accounting system and the *internal controls* for safeguarding assets.

The review must:

(i) cover any in-house or service bureau electronic data processing operations, and

(ii) where applicable, consider and include the appropriate report based on the Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization.

(2) Although conducted in accordance with Canadian Auditing Standards, a *Dealer Member's* substantive audit procedures must be performed as at the fiscal year-end audit date and not as of an earlier date.

(3) A *Dealer Member's risk adjusted capital* and *early warning reserve* levels must be considered when

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determining materiality for the *Dealer Member's* audit.

4176. Test procedures as at the fiscal year-end date

(1) The *Dealer Member's auditor* must conduct the test procedures in sections 4177 through 4188 as at the fiscal year-end date, which is the fiscal year-end audit date.

4177. Account for all securities, currencies, and other like assets

(1) The *Dealer Member's auditor* must account for all securities, currencies and other like assets, including those held in *safekeeping* or in *segregation*, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.

(2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.

(3) If a *Dealer Member* has *employees* who are independent of its *employees* who handle or record securities, those independent *employees* may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.

(4) The *Dealer Member's auditor* must test count and compare sufficient security counts with the independent *employees'* counts, if applicable, and with the security position *records*, to be satisfied that the entire count was materially correct.

(5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

4178. Verify securities in transfer and in transit

(1) On a test basis, the *Dealer Member's auditor* must verify securities in transfer and in transit between the *Dealer Member's* offices.

4179. Review the Dealer Member's position balancing and account reconciliations

(1) The *Dealer Member's auditor* must review the *Dealer Member's*:

(i) balancing of all security and *derivative* positions,

(ii) reconciliation of all broker, dealer, clearing account positions, and non-certificated instrument positions the *Dealer Member* holds (in its inventory and for clients) with the counterparty's corresponding statements,

and

(iii) reconciliation to ensure that all necessary adjustments identified during the preparation have been made.

(2) If a position or account is not in balance according to the *records* (after adjusting to the physical count):

(i) the *Dealer Member's auditor* must find out whether the *Dealer Member* has adequately provided for any potential loss, and

(ii) the *Dealer Member* must make that provision according to the Notes and Instructions for

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unresolved differences in Statement B of Form 1.

4180. Review bank reconciliations

(1) The *Dealer Member's auditor* must:

(i) obtain bank statements, cancelled cheques, and all other debit and credit memos directly from the *Dealer Member's* banks which cover a period ending at least 10 *business days* after the fiscal year-end audit date,

(ii) verify the accuracy of the reconciliations between the bank statements and the ledger control accounts as of the fiscal year-end audit date and on a test basis, using appropriate audit procedures, and

(iii) verify that all necessary adjustments identified during the preparation of the reconciliation have been made.

4181. Review custodial agreements and approvals

(1) The *Dealer Member's auditor* must:

(i) ensure that all custodial agreements in the form prescribed by *IIROC*, are in place for securities lodged with *acceptable securities locations*, and

(ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. Obtain written positive confirmations

(1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and security positions.

(2) The *Dealer Member's auditor* must obtain written positive confirmation of:

(i) all bank balances and other deposits including hypothecated securities,

(ii) all money, security positions, and *derivative* positions, including with clearing houses, similar organizations, and issuers of non-certificated instruments,

(iii) all money and securities loaned or borrowed (including *subordinated debt*) and details of collateral received or pledged, if any,

(iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and security positions and *derivative* positions,

(v) all accounts of *Directors* and *officers* or partners, including money and security positions and *derivative* positions,

(vi) a sample of client, *employee*, and shareholder accounts, including money and security positions and *derivative* positions,

(vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or

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as at the end of the fiscal year,

(viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and

(ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. Selection of accounts for positive confirmation

(1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:

(i) must send a positive confirmation request,

(ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and

(iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.

(2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:

(i) select specific accounts for positive confirmation based on:

(a) account size (all accounts with net equity exceeding a certain dollar value, based on the level of materiality), and

(b) other characteristics such as accounts in dispute, accounts that are significantly under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,

(ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and

(iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

4184. Written confirmation of clients' accounts with no balance

(1) The *Dealer Member's auditor* must, using positive or negative written confirmation procedures, confirm on a test basis client accounts with no balance and client accounts closed since the last fiscal year-end audit date. The *Dealer Member's auditor* must consider the adequacy of the *Dealer Member's internal control* system to decide the extent of these procedures**.**

4185. Effect on capital if no positive written confirmation received for a guarantee

(1) If the *Dealer Member's auditor* does not receive a reply to a positive confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the *guarantee* agreement must not be accepted for margin reduction purposes for the accounts guaranteed

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until:

(i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or

(ii) the parties sign a new account *guarantee* agreement.

(2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the *guarantee*, that *guarantee* must not be accepted for margin reduction purposes until:

(i) the dispute is resolved, and

(ii) the guarantor provides a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

4186. Review a sample of signed guarantee agreements

(1) The *Dealer Member's auditor* must review a sample of the *Dealer Member's guarantee* agreements to ensure they are signed, completed, and comply with the minimum requirements set out in subsection 5825(1).

4187. Tests and procedures on statements and schedules of Form 1

(1) The additional information set out in Part II of Form 1 should be subjected to the procedures in the audit of Part I of Form 1, which are in accordance with Canadian Auditing Standards. No procedures are required to be carried out in addition to those necessary to form an opinion on Part I of Form 1.

4188. Test statements for a description of securities held in safekeeping

(1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* security position record and client statements accurately describe securities held in *safekeeping*.

4189. Dealer Member obligations to auditor

(1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.

(2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.

(3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

4190. Calculations for Form 1 and other reporting

(1) The *Dealer Member's auditor* must perform the procedures identified in the "Report on Compliance for Insurance, Segregation of Securities, and Guarantee/Guarantor Relationships Relied Upon to Reduce Margin Requirement During the Year" in Form 1 and report on the results

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as at the fiscal year-end audit date.

4191. Auditor's records

(1) The *Dealer Member's auditor* must retain a final copy of Form 1 and all audit working papers for six years.

(2) All audit working papers for the two most recent years must be readily accessible.

(3) The *Dealer Member's auditor* must make all working papers available for review by *IIROC* and the *Canadian Investor Protection Fund*.

4192. Auditor's obligation to report to IIROC

(1) If during the regular conduct of an audit, the *Dealer Member's auditor* observes any material breach of *IIROC requirements* related to:

(i) calculating the *Dealer Member's* financial position,

(ii) handling and custody of securities, or

(iii) maintaining adequate *records*,

the *Dealer Member's auditor* must report that breach to *IIROC*.

(2) The *Dealer Member's auditor* must report on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member's risk adjusted capital* level.

4193. - 4199. Reserved.

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RULE 4200

GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

4201. Introduction

(1) Rule 4200 sets out the following *Dealer Member* general financial requirements:

Part A - Financial disclosure to clients
[sections 4202 through 4209]

Part B - General internal control requirements
[sections 4220 through 4225]

Part C - Pricing internal control requirements
[sections 4240 through 4244]

Part D - Calculation of prices on a yield basis
[sections 4260 through 4267]

Part E - Professional opinions
[sections 4270 through 4276]

Part A - FINANCIAL DISCLOSURE TO CLIENTS

4202. Introduction

(1) If a client so requests, a *Dealer Member* must disclose its financial position to the client to enable them to assess the *Dealer Member's* financial position. Part A of Rule 4200 sets out the requirements that a *Dealer Member* must comply with in order to present this information to the client in a complete and consistent manner.

4203. Summary statement of financial position available

(1) A *Dealer Member* must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

(2) The summary statement of financial position must be as at the *Dealer Member's* latest fiscal year-end date and based on its latest annual audited financial statements.

(3) A *Dealer Member* must prepare the summary statement of financial position within 75 days of its fiscal year-end.

4204. Summary statement of financial position - contents

(1) A *Dealer Member's* summary statement of financial position must contain material information including details of the *Dealer Member's* assets, liabilities and financial statement capital, and be generated using the Securities Industry Regulatory Financial Filings system.

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4205. Audited or unaudited summary statement of financial position

(1) The summary statement of financial position must either be:

(i) audited and accompanied by:

(a) a report prepared by the *Dealer Member's auditor* stating that it fairly summarizes the financial position of the *Dealer Member*, and

(b) notes disclosures specified by the *Dealer Member's auditor*,

or

(ii) unaudited and:

(a) generated from within the Securities Industry Regulatory Financial Filings system using information from the most recent audited Form 1of the *Dealer Member*,

(b) certified by the *Dealer Member's Chief Financial Officer*, and

(c) accompanied by note disclosures that at a minimum describe, management's responsibility for the summary statement of financial position, and the basis of accounting and restriction on the use of the summary statement of financial position.

4206. Publishing a summary statement of financial position

(1) If a *Dealer Member* publishes or circulates a summary statement of financial position in any document, it must:

(i) be in the same form, and

(ii) contain the same information,

as the statement made available to the *Dealer Member's* clients.

4207. List of current Executives and Directors

(1) A *Dealer Member* must provide a current list of its *Executives* and *Directors*, when requested, to any client who has traded in his or her account with the *Dealer Member* within the past 12 months.

4208. Disclosures available to clients

(1) A *Dealer Member* must state on each account statement sent to clients, or in another manner *IIROC* approves, that:

(i) its summary statement of financial position, and

(ii) list of *Executives* and *Directors,*

are available on request to any client who has traded in his or her account within the previous 12 months.

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4209. Consolidated financial statements - similar named entity

(1) A *Dealer Member* must disclose its financial statements separately from those of any *affiliate* or *holding company* with a similar name.

(2) If a *Dealer Member's* accounts are included in the consolidated financial statements of its *holding company* or *affiliate* with a name similar to the *Dealer Member's*, and those consolidated financial statements are published or circulated in any document or other medium, then either:

(i) the consolidated financial statements must include a note indicating that:

(a) they relate to an entity that is not the *Dealer Member*, and

(b) although the statements include the *Dealer Member's* accounts, they are not the *Dealer Member's* financial statements,

or

(ii) at the time of publication or circulation, the *Dealer Member* must send to each client who has traded in his or her account within 12 months of the date of publication:

(a) its unconsolidated summary statement of financial position, and

(b) a letter explaining why the statement is being sent.

4210. - 4219. Reserved.

Part B - GENERAL INTERNAL CONTROL REQUIREMENTS

4220. Introduction

(1) Part B of Rule 4200 sets out *IIROC requirements* for a *Dealer Member's internal controls* and risk management infrastructure. Effective *internal controls* will assist a *Dealer Member* not only in complying with *IIROC requirements* and *securities laws* but also in conducting its business with integrity and due regard to the interests of its clients.

4221. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4200:

"detective controls"	Controls that discover, or increase the chances of finding, fraud or error, so the *Dealer Member* can take prompt corrective action.
"preventive controls"	Controls that prevent, or minimize the chances of, fraud and error.

4222. Adequate internal controls

(1) A *Dealer Member* must establish and maintain appropriate *internal controls*.

(2) The *Dealer Member's Executives* are responsible for ensuring adequate *internal controls* as part of their overall responsibility for managing the *Dealer Member's* operations.

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(3) The *Dealer Member's Executives* must use best judgment in determining whether *internal controls* are adequate.

4223. Preventive controls

(1) When necessary, a *Dealer Member* must implement *preventive controls* based on the *Dealer Member's Executives'* view of the risk of loss and the cost-benefit relationship of controlling that risk.

4224. Written record

(1) A *Dealer Member* must maintain a detailed written *record* of its *internal controls*, including, at a minimum, the policies and procedures the *Dealer Member's Executives* have approved to provide reasonable assurance of compliance with all *IIROC requirements* relating to *internal controls*.

4225. Review and written approval of internal controls

(1) The *Dealer Member's Executives* must review a *Dealer Member's internal controls* for adequacy and suitability at least annually and more frequently as necessary or stipulated by *IIROC requirements*. They must approve a *Dealer Member's internal controls* in writing after each review.

4226. - 4239. Reserved.

Part C - PRICING INTERNAL CONTROL REQUIREMENTS

4240. Introduction

(1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that securities are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used.

4241. Pricing procedures

(1) A *Dealer Member* must consistently and accurately price all securities. In Part C of Rule 4200, references to securities include client and inventory securities and securities used in financing transactions such as security borrow and lend, *repurchase agreement* transactions and *reverse repurchase agreement* transactions.

(2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its "owned" and "sold short" security positions to ensure accurate profit and loss reporting in accordance with *IIROC requirements*.

(3) A *Dealer Member*'s policies and procedures must specifically address consistently pricing securities and verifying prices of securities.

(4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in security *records* that it uses to prepare management reports for monitoring:

(i) securities inventory profit and loss,

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(ii) its regulatory capital position, and

(iii) security *segregation*.

(5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports' preparation. Conflicted *employees* must not be involved in security pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

4242. Independent price verification and adjustment

(1) A *Dealer Member* must verify its security prices at each month-end by comparing them with independent (third-party) pricing sources.

(2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).

(3) An appropriate *Executive* must:

(i) on a monthly basis, approve the resolution of all material differences, and

(ii) on an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.

4243. Retention of supporting documents

(1) A *Dealer Member* must retain supporting documents to show that it has verified securities pricing and made appropriate adjustments.

4244. Access to records

(1) *Dealer Member employees* involved in securities trading must not have access to back-office security price *records*.

4245. - 4259. Reserved.

Part D - CALCULATION OF PRICES ON A YIELD BASIS

4260. Introduction

(1) Part D of Rule 4200 describes how to calculate a security price based on a security's current market yield.

4261. Definitions

(1) The following term has the meaning set out below when used in Part D Rule 4200:

"regular delivery date"	The settlement or delivery dates generally accepted in industry practice for a security in the market where the transaction occurs.

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4262. Calculating price if no method is stated for calculating unexpired term

(1) When a *Dealer Member* quotes a bid or offer based on yield, and neither the buyer nor seller *Dealer Member* states a price or a method for calculating the unexpired term, the price must be established according to sections 4264 through 4267.

4263. Exceptions

(1) Sections 4264 through 4267 do not apply to trades in:

(i) Government of Canada bonds and bonds guaranteed by the Government of Canada,

(ii) Short-term bonds that have:

(a) an unexpired term to maturity of six months or less,

(b) an unexpired term-to-call date of six months or less and selling at, or at a premium over, the call price, or

(c) been called for redemption,

(iii) bonds callable on future dates at varying prices, and

(iv) bonds callable at the issuer's option if the call date is not stated and the bonds are selling at a premium over call price.

4264. Unexpired term - Bonds with unexpired terms to maturity up to and including 10 years

(1) For a bond with an unexpired term to maturity up to and including 10 years, calculate the unexpired term as the exact period in years, months, and days from the *regular delivery date*:

(i) to the maturity date of a non-callable bond or callable bond selling at less than the call price, and

(ii) to the first redemption date of a callable bond selling at, or at a premium over, the call price.

4265. Unexpired term - Bonds with unexpired terms to maturity over 10 years

(1) For a bond with an unexpired term to maturity of over 10 years, calculate the unexpired term as the period in years and months from the month in which the *regular delivery date* occurs:

(i) to the month and year of maturity of a non-callable bond or callable bond selling at less than the call price, and

(ii) to the first month and year that the bond is redeemable for a callable bond selling at, or at a premium over, the call price.

4266. Calculating the price and price precision

(1) In calculating the price, the unexpired term must be expressed as years. To express the unexpired term in years:

(i) one day shall be deemed to be $1/30^{th}$ of one month, and

(ii) one month shall be deemed to be $1/12^{th}$ of one year.

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(2) For all bond transactions between *Dealer Members* and its clients where the price has been determined using the calculation approach set out in either section 4264 or 4265, the price must be extended to three decimal places of precision.

4267. New issues

(1) Part D of Rule 4200 applies to new issues. The unexpired term to maturity is to start on the date that accrued interest, which is charged to the client, is calculated up to.

4268. - 4269. Reserved.

Part E - PROFESSIONAL OPINIONS

4270. Introduction

(1) Part E of Rule 4200 sets requirements relating to *professional opinion* (defined in section 4271) standards.

4271. Definitions

(1) The following terms have the meanings set out below when used in Part E of Rule 4200:

"IIROC standards"	The disclosure standards in Part E of Rule 4200.
"disclosure document"	The same meaning as used in relevant *securities laws*.
"fairness opinion"	A report of a *valuer* that contains the *valuer's* opinion as to the fairness, from a financial point of view, of a transaction.
"formal valuation"	A report of a *valuer* that contains the *valuer's* opinion as to the value or range of values of the subject matter of the valuation.
"interested party"	The same meaning as used in relevant *securities laws*.
"prior valuation"	The same meaning as used in relevant *securities laws*.
"professional opinion"	A *formal valuation* or a *fairness opinion*.
"subject transaction"	Transactions including an insider bid, issuer bid, business combinations, or related party transaction as defined in relevant *securities laws*.
"valuer"	The person who provides a *professional opinion*.

4272. Application

(1) *IIROC standards* apply only to *professional opinions* that are prepared either:

(i) pursuant to a requirement of relevant *securities laws*, or

(ii) for the express purpose of publication in a *disclosure document* to be filed with any Canadian *securities regulatory authority* or delivered to security holders in connection with

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their consideration of the *subject transaction*.

(2) *IIROC standards* do not apply to *professional opinions* that are either:

(i) rendered in connection with transactions other than the *subject transactions*, whether or not they are reproduced or summarized in a *disclosure document*, or

(ii) reproduced or summarized in a *disclosure document* in compliance with relevant *securities laws* for the disclosure of *prior valuations* in respect of an issuer.

4273. General requirement

(1) A *Dealer Member's professional opinion* in connection with a *subject transaction* must comply with *IIROC standards*.

(2) A *Dealer Member's* compliance with *IIROC standards*:

(i) must not substitute the professional judgment and responsibility of the *valuer*,

(ii) will not be considered compliant if it is not exercised along with professional judgment and responsibility regarding disclosure in a *professional opinion*, and

(iii) may not be appropriate if its strict compliance is not justified using professional judgment and responsibility.

4274. General disclosure

(1) *Professional opinions* prepared in connection with the *subject transactions* must provide disclosure that:

(i) enables the directors and security holders of the particular issuer to understand the principal judgments and principal underlying reasoning of the *valuer* in its *professional opinion*, and

(ii) form a reasoned view on the valuation conclusion or the opinion as to fairness expressed therein.

(2) In reaching a valuation or fairness conclusion, a *Dealer Member* must consider certain information such as, valuation approach, definition of value, key assumptions. That information is described in Part E of Rule 4200 and may be important and required to be disclosed in a *professional opinion*.

(3) If the *Dealer Member* receives any expressions of concerns relating to its proposed disclosure in a *professional opinion* that contain competitively or commercially sensitive information regarding an *interested party* or issuer:

(i) The *Dealer Member* may seek a decision of the special committee of the issuer's independent directors as to whether the perceived detriment to an *interested party* outweighs the benefit of disclosure of such information to the readers of the *professional opinion*.

(ii) Compliance of the *Dealer Member* with any such decision of a special committee will constitute compliance with *IIROC standards* in respect of the matters that are the subject of

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the decision.

4275. Disclosure - formal valuations

(1) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in valuing other businesses in the same or similar industries as the business or issuer in question or similar transactions to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable securities involved in the *subject transaction*, and

(c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*,

(ii) the date the *valuer* was first contacted in respect of the *subject transaction* and the date that the *valuer* was retained,

(iii) the financial terms of the *valuer's* retainer,

(iv) a description of any past, present or anticipated relationship between the *valuer* and any *interested party* or the issuer which may be relevant to the *valuer's* independence for purposes of relevant *securities laws*,

(v) the subject matter of the *formal valuation*,

(vi) the effective date of the *formal valuation*,

(vii) a description of any specific adjustments that have been made in the *valuer's* conclusions by reason of an event or occurrence after the effective date,

(viii) the scope and purpose of the *formal valuation*, including the following statement:

"This formal valuation has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of the Investment Industry Regulatory Organization of Canada (IIROC) but IIROC has not been involved in the preparation or review of this formal valuation",

(ix) a description of the scope of the review conducted by the *valuer*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *valuer*),

(x) a description of any limitation on the scope of review and the implications of such limitation on the *valuer's* conclusions,

(xi) a description of the business, assets or securities being valued sufficient to allow the reader to understand the valuation rationale and approach and the various factors influencing value that were considered,

(xii) definitions of the terms of value used in the *formal valuation* including but not limited to "fair market value", "market value" and "cash equivalent value",

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(xiii) the valuation approach and methodologies considered, including:

(a) the rationale for valuing the business as a going concern or on a liquidation basis,

(b) the reasons for selecting a particular valuation methodology, and

(c) a summary of the key factors considered in selecting the valuation approach and methodologies considered,

(xiv) the key assumptions made by the *valuer*,

(xv) any distinctive material value that the *valuer* has determined might accrue to an *interested party*, whether this value is included in the value or range of values arrived at for the subject matter of the *formal valuation* and the reasons for its inclusion or exclusion,

(xvi) the following discussions or explanations:

(a) a discussion of any prior bona fide offers or *prior valuations* or other material expert reports considered by the *valuer* pertaining to the subject matter of the transaction, or

(b) if the *formal valuation* differs materially from any such *prior valuation*, an explanation of the material differences where reasonably practicable to do so based on the information contained in the *prior valuation* or, if it is not reasonably practicable to do so, the reasons why it is not reasonably practicable to do so,

and

(xvii) the valuation conclusions reached and any qualifications or limitations to which such conclusions are subject.

(2) A *professional opinion* that is a *formal valuation* prepared by a *Dealer Member* in connection with a *subject transaction* must disclose the following:

(i) Annual financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity for the most recently completed fiscal year as well as from the statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in financial position for the immediately preceding fiscal year.

(ii) Interim financial information

Unless otherwise disclosed through the Canadian continuous disclosure obligations of the issuer or in a *disclosure document* published in connection with the transaction to which the *professional opinion* applies:

(a) The *professional opinion* must disclose a summary of selected material financial information derived from the most recent interim statement of financial position (if

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any), statement of profit or loss and other comprehensive income and statement of changes in equity for the current fiscal year and the comparable statements for the same interim period of the immediately preceding fiscal year. (iii) Discussion of historical financial statements or financial position (a) The *professional opinion* must include comments on material items or changes in the issuer's financial statements together with appropriate commentary on items which may have particular relevance to the *professional opinion* including but not limited to unusual capital structures, unrecognized tax-loss carry forwards and redundant assets. (iv) Future oriented financial information (a) To the extent that the *valuer* has relied upon future-oriented financial information, the *valuer* must disclose the future-oriented financial information, at least in summary form, unless otherwise determined by a decision of the special committee referred to in section 4274. (b) To the extent that the future-oriented financial information relied upon by the *valuer* varies materially from the future-oriented financial information provided to the *valuer* by the issuer or the *interested party*, the *valuer* must disclose the nature and extent of such differences and the rationale of the *valuer* supporting its judgments. (v) Future oriented financial information assumptions (a) To the extent that future-oriented financial information is relied upon (whether or not the future-oriented financial information itself is disclosed), key financial assumptions (such as sales, growth rates, operating profit margins, major expense items, interest rates, tax rates, depreciation rates), together with a brief statement supporting the rationale for each specific assumption, must also be disclosed, unless otherwise determined by a decision of the special committee referred to in section 4274. (vi) Economic assumptions (a) Any key economic assumptions having a material impact on the *professional opinion* must be disclosed, noting the authoritative source used by the *valuer*, including interest rates, exchange rates and general economic prospects in the relevant markets. (vii) Valuation approach, methodologies and analysis The *professional opinion* must set out: (a) the valuation approach and methodologies adopted by the *valuer*, (b) together with the principal judgments made in selecting a particular approach or methodology, (c) a comparison of valuation calculations and conclusions arrived at through the different methods considered and the relative importance of each methodology in

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arriving at the overall valuation conclusion, and

(d) the information in clauses 4275(2)(viii) through 4275(2)(xii), if relevant for the valuation techniques used.

(viii) Discounted cash flow approach

(a) The *professional opinion* must include a discussion of all relevant qualitative and quantitative judgments used to calculate discount rates, multiples and capitalization rates.

(b) If the capital asset pricing model is used, disclosure must include the basis for determining the discount rate including the risk free rate, market risk premium, beta, tax rates and debt to equity capital structure assumed.

(c) The *valuer* must also disclose the basis for the determination of the terminal/residual value together with the underlying assumptions made.

(d) The source of the financial data which formed the basis of the discounted cash flow analysis, summary of major assumptions (if not already disclosed) and the details and sources of any economic statistics, commodity prices and market forecasts used in the valuation approach must also be disclosed.

(e) In addition, a summary of the sensitivity variables considered and the general results of the application of such sensitivity analysis must be disclosed along with an explanation of how such sensitivity analysis was used in the determination of the range of valuation estimates resulting from the discounted cash flow approach.

(f) Where the nature of the future-oriented financial information and the subject matter of the valuation make it reasonably practicable and meaningful to do so, selected quantitative sensitivity analyses performed by the *valuer* must be disclosed to illustrate the effects of variations in the key assumptions on the valuation results.

(g) In determining whether quantitative sensitivity analyses would be meaningful to the reader of the *professional opinion*, the *valuer* must consider whether such analyses adequately reflects the *valuer's* judgment concerning the inter-relationship of the key underlying assumptions.

(ix) Asset based valuation approach

(a) The *professional opinion* must separately disclose the values of each significant asset and liability including off-statement of financial position items (unless otherwise determined by a decision of the special committee referred to in section 4274).

(b) If a liquidation based valuation approach has been utilized, the *professional opinion* must set out the liquidation values for each significant asset and liability together with summary estimates for significant liquidation costs.

(x) Comparable transaction approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant transactions involving businesses the *valuer* considers similar or comparable to the

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business being valued.

(b) Adequate disclosure must include the date of the transaction, a brief descriptive note, and relevant multiples implicit in the transaction which may include: earnings before interest and taxes multiples; earnings before interest, taxes, depreciation and amortization multiples; earnings multiples; cash flow multiples; and book value multiples; and take-over premium percentages.

(c) In the body of the *professional opinion* there must be a discussion of such transactions together with an explanation as to how such transactions were used by the *valuer* in arriving at a valuation conclusion with regard to the comparable transaction approach.

(xi) Comparable trading approach

(a) The *professional opinion* must disclose (preferably in tabular form) a list of relevant publicly traded companies the *valuer* considers similar or comparable to the business being valued.

(b) Adequate disclosure must include the date of the market data, the relevant fiscal periods for the comparable company, a brief descriptive note regarding the comparable company and relevant multiples implicit in the trading data which may include: earnings before interest and taxes multiples; earnings before interest, taxes depreciation and amortization multiples; earnings multiples, cash flow multiples; and book value multiples.

(c) In the body of the *professional opinion* there must be a discussion as to the comparability of such companies, together with an explanation as to how such data was used by the *valuer* in arriving at a valuation conclusion with regard to the comparable trading approach.

(xii) Valuation conclusions

(a) The *valuer* must develop a final valuation range by using a single valuation methodology or some combination of value conclusions determined under different methodologies/approaches.

(b) The *professional opinion* must include a comparison of the valuation ranges developed under each methodology and a discussion of the reasoning in support of the *valuer's* final conclusion.

4276. Disclosure - fairness opinion

(1) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* must disclose the following information:

(i) the identity and credentials of the *Dealer Member*, including:

(a) the general experience of the *Dealer Member* in providing *fairness opinions* in connection with transactions similar to the *subject transaction*,

(b) the *Dealer Member's* understanding of the specific marketable securities involved in

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the *subject transaction*, and (c) the internal procedures followed by the *Dealer Member* to ensure the quality of the *professional opinion*, (ii) the date the *Dealer Member* was first contacted in respect of the *subject transaction* and the date that the firm was retained, (iii) the financial terms of the *Dealer Member's* retainer, (iv) a description of any past, present or anticipated relationship between the *Dealer Member* and any *interested party* which may be relevant to the *Dealer Member's* independence for purposes of providing the *fairness opinion*, (v) the scope and purpose of the *fairness opinion*, including the following statement: "This fairness opinion has been prepared in accordance with the disclosure standards for formal valuations and fairness opinions of the Investment Industry Regulatory Organization of Canada (IIROC) but IIROC has not been involved in the preparation or review of this fairness opinion.", (vi) the effective date of the *fairness opinion*, (vii) a description of the scope of the review conducted by the *Dealer Member*, including a summary of the type of information reviewed and relied upon (such as the documents reviewed, *individuals* interviewed, facilities visited, other expert reports considered and management representations concerning information requested and furnished to the *Dealer Member*), (viii) a description of any limitation on the scope of review and the implications of such limitation on the *Dealer Member's* opinion or conclusion, (ix) a description of the relevant business, assets or securities sufficient to allow the reader to understand the rationale of the *fairness opinion* and the approach and various factors influencing financial fairness that were considered, (x) a description of the valuation or appraisal work performed or relied upon in support of the *Dealer Member's* opinion or conclusion, (xi) a discussion of any prior bona fide offer or *prior valuation* or other material expert report considered by the *Dealer Member* in coming to the opinion or conclusion contained in the *fairness opinion*, (xii) the key assumptions made by the *Dealer Member*, (xiii) the factors the *Dealer Member* considered important in performing its fairness analysis, (xiv) the statement of opinion or conclusion as to the fairness, from a financial point of view, of the *subject transaction* and the supporting reasons, and (xv) any qualifications or limitations to which the opinion or conclusion is subject. (2) A *professional opinion* that is a *fairness opinion* prepared by a *Dealer Member* in connection with a *subject transaction* must include the following: (i) a *fairness opinion* must include:

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(a) a general description of any valuation analysis performed by the opinion provider, or (b) specific disclosure of a valuation opinion of another *valuer* which is being relied upon, (ii) the *fairness opinion* provider is not required to reach or disclose specific conclusions as to a valuation range or ranges in a *fairness opinion*, (iii) the conclusion section of the *fairness opinion* must include specific reasons for the conclusion that the *subject transaction* is fair or not fair to security holders, from a financial point of view, and (iv) support for each of these specific reasons described in clause 4276(2)(iii) must be contained in the body of the *professional opinion* in sufficient detail to allow the reader of the opinion to understand the principal judgments and principal underlying reasoning of the opinion provider in reaching its opinion as to the fairness of the transaction.
4277. - 4299. Reserved.

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RULE 4300

PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES

4301. Introduction

(1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

Part A.1 - General segregation requirements
[sections 4311 through 4314]

Part A.2 - Bulk segregation calculation
[sections 4315 through 4319]

Part A.3 - Security usage restrictions and correcting segregation deficiencies
[sections 4320 through 4326]

Part A.4 - Minimum segregation policies and procedures
[sections 4327 through 4332]

Part B - Custody and related internal control requirements:

Part B.1 - General custody requirements
[sections 4340 through 4343]

Part B.2 - Acceptable securities locations
[sections 4344 through 4352]

Part B.3 - Written custodial agreement requirement
[sections 4353 and 4354]

Part B.4 - Confirmation and reconciliation requirements
[sections 4355 through 4361]

Part B.5 - Margin requirements
[sections 4362 through 4368]

Part C - Client free credit balance requirements
[sections 4380 through 4386]

4302. - 4309. Reserved.

Part A - SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS

4310. Definitions

(1) The following terms have the meaning set out below when used in Part A of Rule 4300:

"bulk segregation"	Securities in *segregation* for a *Dealer Member's* clients that are not reserved for particular clients.
"net loan value"	Of a security means: (i) for a long position, the *market value* of the security less any margin required,

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	(ii) for a short position, the *market value* of the security plus any margin required expressed as a negative number, and (iii) for a short security *option* position, the *market value* of the *option* plus any margin required expressed as a negative number.
"qualifying hedge position"	For all the accounts of each client: (i) a long position in a security, and, (ii) a short position in a security issued or guaranteed by the same issuer of the security in clause (i) of this definition, where: (iii) the long position is convertible to or exchangeable for securities of the same class and number of the securities held in the short position, and (iv) the *Dealer Member* is using the long position as collateral to cover the short position.
"segregated securities"	Securities held in *segregation* by a *Dealer Member* for a client.

Part A.1 - General segregation requirements

4311. Introduction

(1) The general *segregation* requirements set out the requirements for a *Dealer Member* to *segregate* client fully paid and excess margin securities.

4312. Fully paid and excess margin securities

(1) A *Dealer Member* holding fully paid or excess margin securities for a client must:

(i) *segregate* those securities, and

(ii) identify those securities as being held in trust for that client.

(2) A *Dealer Member* must not use securities held in *segregation* for its own purposes except with the express written approval of its client under the terms of a cash and securities loan agreement as detailed in section 5840.

(3) *IIROC* may prescribe how *segregated securities* are held, and how the amount or value of securities to be segregated must be calculated.

4313. Restricted and non-negotiable securities

(1) Securities that are restricted, non-negotiable, or that cannot be made fully negotiable solely by signature or *guarantee* of the *Dealer Member* are deemed not to be segregated, unless such

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securities are registered in the name of the client (or name of a *person* required by the client) on whose behalf they are being held in an acceptable *segregation* location.

4314. Segregation of client securities

(1) A *Dealer Member* holding *segregated securities* must:

(i) segregate those securities in bulk in accordance with sections 4315 through 4319, or

(ii) segregate specific securities for each client.

(2) A *Dealer Member* must not segregate in bulk client securities that are subject to a written *safekeeping* agreement.

Part A.2 - Bulk segregation calculation

4315. Steps for bulk segregation calculation

(1) A *Dealer Member* that segregates securities in bulk must, in accordance with sections 4316 through 4319:

(i) determine the *net loan value* and *market value* of securities held in a client's account,

(ii) calculate the number of *segregated securities* to be segregated in bulk,

(iii) determine the securities to use to satisfy *segregation* requirements, and

(iv) perform regular calculations and compliance reviews.

4316. Net loan value and market value of securities in a client's account

(1) A *Dealer Member* holding *segregated securities* in *bulk segregation* must determine for all securities held for all accounts of each client:

(i) the number of securities that are part of a *qualifying hedge position*,

(ii) the *net loan value* of securities (excluding securities that are part of a *qualifying hedge position*) less the aggregate debit cash balance in accounts (or plus in the case of a credit), and

(iii) the *market value* of securities (excluding securities that are part of a *qualifying hedge position*) not eligible for margin less the aggregate amount, if any, by which those accounts are under margined as calculated in clause 4316(1)(ii).

(2) A *Dealer Member* must segregate the *net loan value* of securities calculated in clause 4316(1)(ii) and the *market value* of securities calculated in clause 4316(1)(iii) for each client account.

(3) A *Dealer Member* is not required to segregate an amount of securities greater than the *market value* of the securities held for those accounts.

4317. Calculating the number of client securities to be segregated in bulk

(1) A *Dealer Member* that chooses to satisfy its *segregation* obligations under section 4312 by segregating in bulk must segregate in bulk for all its clients the number of securities calculated as follows:

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(i) *Equities*

Number of securities required to be segregated	=	(aggregate loan value or *market value* of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or *market value* of one unit of the security)

(ii) *Debt securities*

Principal amount of securities required to be segregated	=	(aggregate loan value or *market value* of a class or series of security required to be segregated for each client in section 4316) ÷ (loan value or *market value* of each $100 principal amount of the security) x 100, rounded to lowest issuable denomination

4318. Determining securities to comply with segregation requirements

(1) A *Dealer Member* may choose any securities from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid securities in a cash account be segregated before unpaid securities.

(2) A *Dealer Member* that sells securities required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) Securities required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any securities by that client until settlement or value date.

4319. Frequency and review of bulk segregation calculation

(1) At least twice weekly, a *Dealer Member* must determine the securities required to be segregated according to the calculations in Part A.2 of Rule 4300.

(2) A *Dealer Member* must conduct a daily review of securities *segregated* for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the *Dealer Member* must correct it in accordance with the requirements of sections 4320 through 4326.

Part A.3 - Security usage restrictions and correcting segregation deficiencies

4320. General restrictions

(1) A *Dealer Member* must:

(i) ensure that a *segregation* deficiency is not knowingly created or increased, and

(ii) not deliver securities it holds against payment for the account of any client if those securities are required to satisfy the *Dealer Member's segregation* requirements.

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4321. Correcting segregation deficiencies

(1) If any *segregation* deficiency exists, the *Dealer Member* must promptly take the most appropriate action necessary to correct the deficiency.

(2) Common deficiencies and appropriate remedial actions include, but are not limited to, those in sections 4322 through 4326.

4322. Call loan segregation deficiency

(1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the securities within the *business day* following the day it determines the deficiency exists.

4323. Securities loan segregation deficiency

(1) A *Dealer Member* that determines it has a securities loan *segregation* deficiency must:

(i) recall the securities from the borrower, or

(ii) borrow the same issue of securities to cover the deficiency,

within the *business day* following the day it determines the deficiency exists.

(2) If the *Dealer Member* has not received the securities within five *business days* following the day it determines the deficiency exists, it must undertake to buy-in the securities.

4324. Inventory or trading account short position segregation deficiency

(1) A *Dealer Member* that determines it has an inventory or trading account short position *segregation* deficiency must:

(i) borrow the same issue of securities to cover the deficiency within the *business day* following the day it determines the deficiency exists, or

(ii) undertake to purchase the same issue of securities immediately.

4325 Client declared short sales segregation deficiency

(1) A *Dealer Member* that determines it has a client declared short sale *segregation* deficiency must:

(i) borrow the same issue of securities to cover the deficiency within the *business day* following the day it determines the deficiency exists, or

(ii) undertake to buy-in the same issue of securities within five *business days* following the day it determines the deficiency exists.

4326. Fails – client or other Dealer Members

(1) If a *Dealer Member* has failed to receive securities within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:

(i) borrow the same issue of securities to cover the deficiency, or

(ii) undertake to buy-in the securities.

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Part A.4 - Minimum segregation policies and procedures

4327. General

(1) A *Dealer Member* must, at a minimum, comply with the policies and procedures for *segregated securities* in sections 4328 through 4332 and the supervision requirements in Rule 3900.

4328. Records of segregated securities

(1) *Segregated securities* must be described as being held in *segregation* on a *Dealer Member's* security position record (or related *records*) and client ledger and statement of account. This description must be in substance a fair representation of how the securities are being held in *segregation* at the custodian and therefore, the security box locations of the *Dealer Member* must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the *Dealer Member*.

4329. Twice-weekly report of items requiring segregation

(1) A *Dealer Member* must produce a *segregation* report at least twice weekly.

4330. Reporting segregation deficiency

(1) A *Dealer Member* must set reasonable guidelines so that any material *segregation* deficiency is reported promptly to the *Dealer Member's* appropriate *Executives*.

4331. Authorized employees to move securities

(1) A *Dealer Member* must limit who can move *segregated securities* into or out of *segregation* to only authorized *employees*.

4332. Daily supervisory review of segregation report

(1) A *Dealer Member* must do a daily supervisory review of the most recent *segregation* report produced to identify and correct *segregation* deficiencies.

(2) A *Dealer Member* must do a supervisory review or adopt and implement other procedures that provide reasonable assurance the *segregation* report is complete and accurate.

4333. - 4339. Reserved.

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Part B - CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS

Part B.1 - General custody requirements

4340. Introduction

(1) A *Dealer Member* takes on certain operational risks when it has custody of securities. These risks arise in connection with the location where and by whom the securities are held and whether a *Dealer Member* has adequate *internal controls* to deal with these risks. Part B of Rule 4300 prescribes *IIROC requirements* for managing the risks related to securities custody. As these risks are quantifiable, they are treated as margin charges when calculating *Dealer Member risk adjusted capital.* This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

4341. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4300:

"external acceptable securities location"	An *acceptable securities location* for securities that are not under a *Dealer Member's* physical possession but which are under a *Dealer Member's* control.
"internal acceptable securities location"	An *acceptable securities location* for securities that are in a *Dealer Member's* physical possession or physical control. *Internal acceptable securities locations* include acceptable transfer locations.
"set-off risk"	The risk exposure resulting when a *Dealer Member* has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the securities held by the custodian.

4342. Hold securities in an acceptable securities location

(1) A *Dealer Member* must hold securities, including book-based securities, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as "*acceptable securities locations*".

4343. Timely deposit

(1) A *Dealer Member* must deposit securities requiring *segregation* in an *acceptable securities location* on a timely basis.

Part B.2 - Acceptable securities locations

4344. Acceptable internal storage location

(1) Securities in a *Dealer Member's* physical possession must be held in an internal storage location

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that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

4345. Acceptable internal storage location requirements

(1) A *Dealer Member's* internal storage location must:

(i) be subject to ongoing adequate *internal controls* and systems for safeguarding securities, and

(ii) hold all unencumbered security positions in the physical possession of the *Dealer Member*.

4346. Acceptable transfer locations

(1) Securities in transfer must be in the possession of a registered or recognized transfer agent and a *Dealer Member* must comply with the applicable confirmation requirements in sections 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

4347. Securities not under a Dealer Member's physical possession

(1) Securities not under a *Dealer Member's* physical possession but which are under a *Dealer Member's* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

4348. Entities that may be external acceptable securities locations

(1) Entities that may be *external acceptable securities locations* must comply with *IIROC's requirements* prescribed in Rule 4300 and in Form 1. In Form 1, the entities that may qualify as *"acceptable securities locations"* are grouped into eight categories: depositories and clearing agencies, *acceptable institutions* and subsidiaries of *acceptable institutions*, *acceptable counterparties*, banks and trust companies, mutual funds or their agents, *regulated entities*, foreign institutions and foreign securities dealers, and entities considered suitable to hold London Bullion Market Association gold and silver good delivery bars.

4349. Approval of foreign institutions and foreign securities dealers

(1) To obtain *IIROC's* approval of a foreign institution or foreign securities dealer as an *acceptable securities location*, a *Dealer Member* must:

(i) perform due diligence,

(ii) approve the foreign institution or securities dealer as an *external acceptable securities location*, and

(iii) complete a certificate in the form prescribed by *IIROC* evidencing its due diligence and approval.

4350. Application to IIROC for approval of foreign institutions and foreign securities dealers

(1) A *Dealer Member* must apply in writing to *IIROC* for review and approval of a foreign institution or foreign securities dealer as an *acceptable securities location*.

(2) Prior to submission to *IIROC* the application must be approved by the *Dealer Member's* board of

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directors or by a committee of the *Dealer Member's* board of directors.

(3) The application to *IIROC* must include the following:

Document	Contents	**Form** (if IIROC prescribed)
1. Foreign custodian certificate	1. *Dealer Member* responses to custodian due diligence questions 2. *Dealer Member* certification of approval of foreign custodian as a location for holding securities	In a form satisfactory to *IIROC*
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C$150 million	

4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations

(1) For a foreign institution or foreign securities dealer to continue to be an *acceptable securities location*, the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must annually:

(i) approve in writing the foreign institution or foreign securities dealer, and

(ii) complete and sign a foreign custodian certificate for the foreign institution or foreign securities dealer.

(2) The *Dealer Member* must file the foreign custodian certificate with *IIROC*.

(3) The annual approval by the *Dealer Member's* board of directors or a committee of the *Dealer Member's* board of directors must be given as follows:

Document	Contents	Notes
Dealer Member's board material and foreign custodian certificate	*Dealer Member* board's or committee of the *Dealer Member* board's annual written approval of foreign custodian as foreign location for holding securities	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination

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		of the *Dealer Member*

(4) Without this written approval and filed foreign custodian certificate, the location is a non-acceptable securities location.

4352. Obtaining a client waiver when an external acceptable securities location is unavailable

(1) If a *Dealer Member* holds client securities in a foreign jurisdiction where:

(i) *applicable laws* and circumstances may restrict the transfer of securities from that jurisdiction, and

(ii) the *Dealer Member* cannot arrange to hold the client's securities in the jurisdiction at an *external acceptable securities location*,

the *Dealer Member* must obtain a waiver from the client.

(2) The client's waiver in approved form must be obtained for each transaction.

(3) In the waiver, the client must:

(i) consent to the arrangement,

(ii) acknowledge the risks associated with holding securities at the specified foreign custodian on behalf of the *Dealer Member* in the specified country, and

(iii) waive any claims it may have against the *Dealer Member* and hold the *Dealer Member* harmless if the foreign custodian loses the securities.

(4) On obtaining the waiver, a *Dealer Member* may hold those client securities at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

Part B.3 - Written custodial agreement requirement

4353. Agreement with each external securities location

(1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:

(i) the *Dealer Member* must give prior written consent to any use or disposal of the securities,

(ii) security certificates can be delivered promptly on demand or, if certificates are not available and the securities are book-based, must be transferable either from the location or to another *person* at the location promptly on demand,

(iii) the securities are held in *segregation* for the *Dealer Member* or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian, and

(iv) the custodian indemnifies the *Dealer Member* against losses due to the custodian's failure to return any securities or property it holds to the *Dealer Member*. However, the custodian's liability is limited to the *market value* of the securities and property at the time it was required to deliver them to the *Dealer Member*.

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When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

(a) meet standard industry practice,

(b) be legally enforceable, and

(c) be of sufficient scope and in a form that is acceptable to *IIROC*.

4354. Bare trustee custodial agreement

(1) For book-based security holdings in which a *Dealer Member* does not have a written custodial agreement with an *external acceptable securities location*, the *Dealer Member* is in compliance with section 4353 if *IIROC*, as bare trustee for *Dealer Members*, has an approved form of custodial agreement with the custodian.

Part B.4 - Confirmation and reconciliation requirements

4355. Securities in transit

(1) If securities are in transit between internal storage locations:

(i) for which there are no adequate *internal controls* maintained, or

(ii) for more than five *business days*,

those securities are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation*.

4356. Confirmations from external acceptable securities locations

(1) A *Dealer Member* must receive a positive confirmation of all securities positions annually at its fiscal year-end audit date from each *external acceptable securities location*.

(2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a securities position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

4357. Confirmations from transfer locations in Canada

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location in Canada, the *Dealer Member* must receive those securities within 20 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 20 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 45 *business days* of delivery.

(3) If the position remains unconfirmed after 45 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

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4358. Confirmations from transfer locations in the United States

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location in the United States, the *Dealer Member* must receive those securities within 45 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 45 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 70 *business days* of delivery.

(3) If the position remains unconfirmed after 70 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4359. Confirmations from transfer locations outside Canada and the United States

(1) If a *Dealer Member* has delivered securities for re-registration to a transfer location outside Canada and the United States, the *Dealer Member* must receive those securities within 70 *business days* of delivery.

(2) If a *Dealer Member* has not received those securities within 70 *business days* of delivery, it must obtain written confirmation of the position receivable from the transfer location within 100 *business days* of delivery.

(3) If the position remains unconfirmed after 100 *business days* from delivery, the transfer location is a non-acceptable transfer location for that position, and the *Dealer Member* must transfer the position to its difference account.

4360. Confirmations of stock dividends receivable and stock splits

(1) If a *Dealer Member* has not received the securities from a declared stock dividend or stock split within 45 *business days* of the date receivable, the *Dealer Member* must obtain written confirmation of the position receivable.

(2) If the position remains unconfirmed after 45 *business days*, the *Dealer Member* must transfer the position to its difference account.

4361. Reconcile records for mutual funds and evidences of deposit

(1) A *Dealer Member* must, at least monthly, reconcile its *records* of securities consisting of mutual funds and evidences of deposit with *records* provided by the issuing mutual fund or financial institution.

Part B.5 - Margin requirements

4362. Acceptable securities location

(1) For securities a *Dealer Member* holds at an *acceptable securities location*, custodial related margin requirements only apply to unresolved differences.

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4363. Margin charges – non-acceptable securities location

(1) For securities a *Dealer Member* holds at a non-acceptable securities location, additional margin requirements prescribed in this Part B.5 must be provided unless a client waiver is obtained that complies with the requirements in section 4352.

4364. Non-acceptable internal storage and non-acceptable securities location

(1) If securities are:

(i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, or

(ii) not under a *Dealer Member's* physical possession and are held at a non-acceptable securities location because:

(a) the location does not meet the criteria for an *internal acceptable securities location* as specified in section 4345, or

(b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or

(c) there is no annual written approval of a foreign institution or foreign securities dealer as an *acceptable securities location* as specified in section 4351,

then, when it calculates *risk adjusted capital,* a *Dealer Member* must deduct 100% of the *market value* of securities held in custody with the non-acceptable securities location.

4365. No confirmation from securities location

(1) Security positions where the *Dealer Member* has not received:

(i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,

(ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or

(iii) a confirmation of a related stock split or stock dividend under subsection 4360(2)

are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* and must be transferred to a *Dealer Member's* difference account.

(2) For difference account positions in subsection 4365(1), the *Dealer Member* must:

(i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the security position *market value* and the normal inventory margin, and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4366. No written custodial agreement

(1) If a *Dealer Member* does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an *acceptable securities location*, it must provide margin on the

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security positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).

(2) *Dealer Member* has no *set-off risk* with the custodian

(i) If the *Dealer Member* has no *set-off risk* with the custodian, in determining its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement 10% of the *market value* of the securities held in custody at the custodian.

(3) *Dealer Member* has *set-off risk* with the custodian

(i) If the *Dealer Member* has *set-off risk* with the custodian, in determining:

(a) its *risk adjusted capital*, the *Dealer Member* must deduct as a margin requirement the lesser of:

(I) 100% of the *set-off risk* exposure, and

(II) 100% of the *market value* of the securities held in custody

and

(b) its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement the lesser of:

(I) 10% of the *market value* of securities held in custody at the custodian, and

(II) 100% of the *market value* of securities held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

4367. Records - reconciliation

(1) If a *Dealer Member* reconciles its *records* to an issuing mutual fund's or financial institution's monthly files or statements in accordance with section 4361, the *Dealer Member* must provide margin based on the requirements in Form 1, Statement B, Line 22, Notes and Instructions for any unresolved differences.

(2) If a *Dealer Member* does not reconcile its *records* with files or statements received from mutual funds, or financial institutions for evidences of deposit, it must:

(i) in determining its *risk adjusted capital*, deduct as a margin requirement for unresolved differences an amount equal to:

(a) 10% of the *market value* of the securities, where there have been no transactions in the securities, other than redemptions and transfers, for at least six months and no loan value has been given on the securities, or

(b) 100% of the *market value* of the securities,

and

(ii) undertake to borrow or buy-in the position pursuant to section 4368.

4368. Difference accounts

(1) A *Dealer Member* must maintain a difference or suspense account to record all securities not received due to unreconcilable differences or errors in any accounts.

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(2) If a *Dealer Member* has not received the securities recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:

(i) borrow the same class or series of securities to cover the deficiency, or

(ii) undertake to purchase the securities immediately.

4369. - 4379. Reserved.

Part C - CLIENT FREE CREDIT BALANCE REQUIREMENTS

4380. Introduction

(1) Part C of Rule 4300 restricts a *Dealer Member's* use of clients' *free credit balances* in its business.

4381. Definitions

(1) The following term has the meaning set out below when used in Part C of Rule 4300:

"net allowable assets"	A *Dealer Member's* net allowable assets calculated in Statement B of Form 1.

4382. Dealer Member's use of client free credit balances

(1) A *Dealer Member* may use its clients' *free credit balances* in its business only in accordance with Part C of Rule 4300.

4383. Notation on client account statements

(1) A *Dealer Member* that does not keep its clients' *free credit balances*:

(i) *segregated* in trust for clients in an account with an *acceptable institution,* and

(ii) separate from other money the *Dealer Member* receives, must clearly write the following or equivalent on all statements of account it sends to clients:

"Any free credit balances represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business."

4384. Calculating usable free credit balances

(1) A *Dealer Member* must not use in its business an amount of clients' *free credit balances* that totals more than the greater of:

(i) general free credit limit:

twelve times the *Dealer Member's early warning reserve* amount, or

(ii) margin lending adjusted free credit limit:

twenty times the *Dealer Member's early warning reserve* amount for margin lending

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purposes plus twelve times the remaining *early warning reserve* amount for all other purposes, where the remaining *early warning reserve* amount equals the *early warning reserve* amount minus 1/20th of the total settlement date client margin debit amount.

(2) A *Dealer Member* must segregate clients' *free credit balances* in excess of the amount calculated in subsection 4384(1) either:

(i) in cash held in trust for clients in a separate account with an *acceptable institution*, or

(ii) in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills, and other securities with a maturity of one year or less of, or guaranteed by, the Government of Canada, a province of Canada, the United Kingdom, the United States, or any other national foreign government that is on the List of Basel Accord Countries (provided such other foreign government securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively).

4385. Weekly calculation

(1) At least weekly, but more frequently if required, a *Dealer Member* must calculate the amounts that must be segregated under section 4384.

4386. Daily compliance review

(1) Every day, a *Dealer Member* must compare the amount of client *free credit balances* it has segregated to the amount subsection 4384(2) requires to be segregated.

(2) A *Dealer Member* must identify and correct any deficiency in amounts of *free credit balances* required to be *segregated* within five *business days* following the determination of the deficiency.

4387. - 4399. Reserved.

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RULE 4400

PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND SECURITIES, AND INSURANCE

4401. Introduction

(1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Safekeeping requirements
[sections 4402 through 4407]

Part B - Internal controls requirements for safeguarding cash and securities
[sections 4420 through 4433]

Part C - Insurance requirements
[sections 4450 through 4468]

Part A - SAFEKEEPING REQUIREMENTS

4402. Introduction

(1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

4403. Written safekeeping agreement

(1) A *Dealer Member* with securities held for *safekeeping* must have a written *safekeeping* agreement with each client it holds securities for.

4404. Securities free from encumbrance

(1) A *Dealer Member* must keep securities held for *safekeeping* free from any encumbrance.

4405. Procedures to keep securities apart

(1) A *Dealer Member* must keep securities held for *safekeeping* separate from all other securities and must have procedures in place to ensure this separation.

4406. Identifying securities held for safekeeping in records

(1) A *Dealer Member* must specifically identify and record securities held for *safekeeping* in its securities position *records* and client's ledger and statement of account.

4407. Release of securities held in safekeeping

(1) A *Dealer Member* may release securities held for *safekeeping* to others only when the client so instructs.

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4408. - 4419. Reserved.

Part B - INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH AND SECURITIES

4420. Introduction

(1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

4421. Safeguarding client and Dealer Member cash and securities

(1) A *Dealer Member* must safeguard its clients' and its own cash and securities:

(i) to protect them against material loss, and

(ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis.

(2) A *Dealer Member*'s policies and procedures must specifically address the minimum requirements for safeguarding cash and securities as described in sections 4422 through 4433.

(3) *IIROC* recognizes that a *Dealer Member* with a small operation may be unable to comply with Rule 4400 requirements to segregate duties. If these minimum requirements are inappropriate because of a *Dealer Member's* small size, it must implement alternative control procedures that *IIROC* approves.

4422. Receipt and delivery of securities

(1) *Employees* who receive and deliver physical securities must not have access to the *Dealer Member's* security *records*.

(2) The *Dealer Member* must handle securities in a restricted and secure area.

(3) The receipt and delivery of securities must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers).

(4) A *Dealer Member* using mail service must send negotiable certificates by registered mail.

(5) A *Dealer Member* must obtain signed receipts from the client or agent for all securities not delivered against payment.

4423. Restricting access to securities

(1) Only designated *employees* may physically handle securities.

(2) Securities must be physically handled only in a restricted and secure area.

(3) Only *employees* not involved in maintaining or balancing *Dealer Member records* may handle physical securities.

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4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.

(3) A *Dealer Member* must take prompt action to correct differences in its *records*.

(4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account security position to settle a short "pro" sale unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a cash and security loan agreement,

that has been executed in accordance with *IIROC requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

4425. Protecting securities

(1) A *Dealer Member* must assess the risk of any securities location that holds securities for it and for the accounts of its clients.

(2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository *records* (for instance, transfers between the "free" and "seg" boxes).

(3) At least monthly, a *Dealer Member* must reconcile its *records* of security and other asset positions to the custodian's *records* where securities are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.

(4) A *Dealer Member* must have a proper written custody agreement with each custodian where securities are held.

4426. How to handle security records

(1) *Employees* maintaining and balancing securities *records* must not be involved in handling physical securities.

(2) A *Dealer Member* must promptly update its securities *records* to reflect changes in location and ownership of securities under its control.

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(3) Journal entries made to securities *records* must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

4427. Rules for counting securities

(1) At least once a year, a *Dealer Member* must count physical securities held:

(i) in *segregation*, and

(ii) for *safekeeping,*

in addition to its annual external audit physical security count.

(2) At least monthly, a *Dealer Member* must count physical securities held in current boxes.

(3) Only *employees* who do not handle securities may conduct physical security counts.

(4) Count procedures must include all physical securities held in the box location subject to the count and must simultaneously verify related positions such as positions in transit or in the process of being transferred.

(5) During a physical security count, both the description of the security and the quantity must be compared to the *Dealer Member's records*. Any discrepancies must be investigated and corrected promptly. Positions not reconciled within a reasonable period must be promptly reported to the *Dealer Member's* appropriate *Executives* and accounted for.

4428. Moving certificates and securities between branches

(1) A *Dealer Member* must record the location of certificates in transit between its offices in separate transit accounts on its security position *records*. The *Dealer Member* must reconcile these accounts monthly.

(2) When securities are in transit, a *Dealer Member* must book out the securities from the branch account and book them into the transit account. When the securities are physically received at a branch, the *Dealer Member* must book them out of the transit account and into the receiving branch's account.

(3) The receiving branch must check securities received against the accompanying transit sheet.

(4) The methods of transportation a *Dealer Member* chooses for securities in transit must:

(i) comply with insurance policy terms, and

(ii) take into account the value, negotiability, urgency, and cost factors.

4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all securities sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name. Only fully-paid securities (new issues excepted) may be transferred into a name other than the *Dealer Member's* name.

(3) The transfer department may carry out transfers only when it receives a properly authorized

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request.

(4) A *Dealer Member's* security position *record* must record, and name them as, "securities out for transfer".

(5) A *Dealer Member* must have a receipt for a securities position at a transfer agent.

(6) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving securities from transfer agents.

(7) Authorized *employees* handling transfers must not have other security cage functions such as deliveries, or the management of current box and segregated box positions.

4430. Re-organization

(1) A *Dealer Member* must have a formal procedure to identify and record the timing and terms of all issuances such as forthcoming rights and offers.

(2) A *Dealer Member* must have a clear method of communicating upcoming re-organization activities to the sales force. These include deadlines for submitting special instructions in writing and any special handling procedures required for key dates.

(3) An authorized *employee* or department must have clear responsibility for organizing and handling each offer.

(4) A *Dealer Member* must clearly define procedures to balance positions daily and to physically control securities.

(5) A *Dealer Member* must regularly reconcile and review suspense accounts involving offers and splits.

4431. Handling dividends and interest

(1) A *Dealer Member* must have a system to record the total dividends and interest payable and receivable at due date.

(2) Dividend and interest record keeping *employees* must not handle cash or authorize payments.

(3) At least monthly, a *Dealer Member* must:

(i) reconcile dividend and interest accounts, and

(ii) review aged dividend receivables.

(4) Only the department manager or another appropriate manager may authorize dividend and interest write-offs.

(5) The department manager or another appropriate manager must approve journal entries to and from dividend and interest accounts.

(6) A *Dealer Member*:

(i) must not pay dividend claims, other than as part of an automatic settlement system, unless accompanied by supporting documents such as proof of registration, and

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(ii) must compare supporting documents with internal *records* for validity and then have the department manager or another appropriate manager approve them.

(7) A *Dealer Member* must withhold non-resident tax when required by law.

(8) Where required by *applicable laws*, a *Dealer Member* must ensure client income is appropriately reported for income tax purposes.

4432. Reconciling internal accounts

(1) At least monthly, a *Dealer Member* must reconcile internal accounts.

(2) A department manager or another appropriate manager must review the reconciliation.

4433. Cash

(1) The department manager or another appropriate manager must review and approve all bank reconciliations.

(2) At least monthly, a *Dealer Member* must reconcile bank accounts in writing, identifying and dating all reconciling items.

(3) Journal entries to clear reconciling items must be made on a timely basis and approved by a department manager or another appropriate manager.

(4) Bank accounts must be reconciled by *employees* who do not have:

(i) access to funds, either receipts or disbursements, or

(ii) access to securities, or

(iii) record keeping responsibilities that include the authority to write or approve journal entries.

(5) An appropriate *Executive* must establish criteria for approving the requisition of a cheque.

(6) Cheques must be pre-numbered, and a *Dealer Member* must account for numerical continuity.

(7) Cheques must be signed by two authorized *employees*.

(8) The authorized *employees* must only sign a cheque when the appropriate supporting documents are provided. The supporting documents must be cancelled after they sign the cheque.

(9) A *Dealer Member* must limit and supervise access to any facsimile signature machine.

4434. - 4449. Reserved.

Part C - INSURANCE REQUIREMENTS

4450. Introduction

(1) Part C of Rule 4400 requires a *Dealer Member* to have enough insurance to protect against potential losses from theft, fraudulent acts, and other losses.

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4451. Definitions

(1) The following terms have the meanings set out below when used in Part C of Rule 4400:

"base amount"	The greater of: (i) the aggregate client net equity for all client accounts, where net equity for each client is the excess, if any, of the total value of cash, securities, and *other acceptable property* the *Dealer Member* owes to the client over the total value of cash, securities, and *other acceptable property* the client owes to the *Dealer Member*, and (ii) the aggregate *Dealer Member* liquid and other allowable assets calculated in accordance with Form 1, Statement A.
"other acceptable property"	The same meaning as set out in Schedule 10 of Form 1.
"standard form financial institution bond"	The standard form of Financial Institution Bond insurance coverage a *Dealer Member* must obtain.

4452. Dealer Member must have insurance

(1) A *Dealer Member* must have and maintain insurance:

(i) against the types of loss, and

(ii) with at least the minimum amount of coverage,

as prescribed in Part C of Rule 4400.

4453. Qualified insurance carriers

(1) A *Dealer Member* must obtain and maintain insurance underwritten by either:

(i) an insurer registered or licensed under the laws of Canada or a province of Canada, or

(ii) a foreign insurer *IIROC* has approved.

4454. Foreign insurers

(1) To obtain *IIROC* approval, a foreign insurer must:

(i) have a minimum net worth of $75 million on its last audited statement of financial position,

(ii) have financial information acceptable to, and available for inspection by, *IIROC*, and

(iii) satisfy *IIROC* that it is subject to supervision by regulatory authorities in its incorporation jurisdiction that is substantially similar to a Canadian insurance company's supervision.

4455. Mail insurance

(1) A *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing

shipments of negotiable or non-negotiable securities by registered mail.

(2) If a *Dealer Member* delivers a written promise to *IIROC* that it will not use registered mail for outgoing shipments of securities, *IIROC* may exempt the *Dealer Member* from the requirement in subsection 4455(1).

4456. Financial institution bond

(1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:

(i) **Fidelity** - Any loss, including loss of property, from a dishonest or fraudulent act of a *Dealer Member's employees*:

(a) committed anywhere, and

(b) committed alone or with others.

(ii) **On premises -** Any loss of money, securities, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of:

(a) the insured's offices,

(b) a banking institution's offices,

(c) a clearing house, or

(d) a recognized place of safe-deposit,

all as defined in the *standard form financial institution bond*.

(iii) **In transit -** Any loss of money and negotiable or non-negotiable securities or other property, while in transit. The value of securities in transit in an *employee's* or *agent's* custody must not exceed the protection under this clause. In transit coverage must be calculated on a dollar for dollar basis. A *Dealer Member* must provide, for *IIROC* approval, a list of exceptions to the money, securities, or other property protected under this clause.

(iv) **Forgery or alterations -** Any loss through forgery or alteration of any:

(a) cheques,

(b) drafts,

(c) promissory notes, or

(d) other written orders or directions to pay sums in money,

excluding securities, as defined in the *standard form financial institution bond*.

(v) **Securities -** Any loss:

(a) through the purchase, acquisition, sale, delivery, extension of credit, or action on securities or other written instruments which prove to have been:

(I) forged,

(II) counterfeited,

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(III) raised or altered, or

(IV) lost or stolen,

or

(b) due to having guaranteed in writing or having witnessed any signatures on any transfers, assignments or other documents or written instruments, as defined in the *standard form financial institution bond*.

4457. General minimum insurance requirement

(1) Self-clearing and Type 3 and Type 4 *introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $500,000, and

(ii) 1% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

4458. Minimum insurance requirement for certain introducing brokers

(1) Type 1 and Type 2 *Introducing brokers* must maintain minimum insurance for each clause in subsection 4456(1) for the greater of:

(i) $200,000 for a Type 1 *introducing broker* arrangement or $500,000 for Type 2 *introducing broker* arrangement, and

(ii) ½% of the *base amount*,

provided that the minimum amount need not exceed $25,000,000 for each clause.

4459. Double aggregate limit

(1) A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

4460. Calculating minimum insurance requirement and risk adjusted capital provisions

(1) Every month, a *Dealer Member* must calculate its required minimum insurance coverage and file Schedule 10 of Form 1 with its monthly financial report.

(2) In calculating minimum insurance coverage requirements, a *Dealer Member* must treat non-negotiable and negotiable form securities as the same.

(3) When calculating its *risk adjusted capital* amount, a *Dealer Member* must provide capital for the amount of its insurance deductible.

4461. Correction of insufficient coverage

(1) If a *Dealer Member* has less coverage than the calculated minimum insurance requirement coverage and the deficiency:

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(i) is less than 10% of the minimum insurance requirement, the *Dealer Member* must correct the deficiency within two months of the filing date of the monthly financial report within which the deficiency was reported, or

(ii) is 10% or more of the insurance requirement, the *Dealer Member* must promptly notify *IIROC* and correct the deficiency within 10 days of identifying it.

4462. Global financial institution bonds

(1) If a *Dealer Member* maintains insurance under Part C of Rule 4400 that names the insured as, or that benefits, the *Dealer Member* and any other *person*, then:

(i) the *Dealer Member* must have the right to claim directly against the insurer for losses, and payment or satisfaction of losses must be made directly to the *Dealer Member*, and

(ii) the individual or aggregate limits under the *standard form financial institution bond* may only be affected by claims made by or for:

(a) the *Dealer Member*,

(b) the *Dealer Member's subsidiaries* whose financial results are consolidated with the *Dealer Member's*, or

(c) the *Dealer Member's holding company*, if the *holding company* does not carry on any business or own any investments other than its interest in the *Dealer Member*.

This applies no matter what the claims, experience, or any other factor that refers to any other *person*.

4463. Notify IIROC of underwriter insurance termination

(1) A *Dealer Member's standard form financial institution bond* and mail insurance policies must require the underwriter to notify *IIROC* at least 30 days before the underwriter terminates or cancels insurance coverage.

4464. When insurance ends due to take-over

(1) A *Dealer Member* taken over by another entity must ensure it has *standard form financial institution bond* coverage for 12 months from the date of the take-over to cover discovery of any losses it had before the take-over date.

(2) The *Dealer Member* must ensure that any additional premium is paid.

4465. Notify IIROC of claims

(1) A *Dealer Member* must give written notice to *IIROC* within two *business days* of reporting a claim to the insurer or its authorized representative.

4466. Board of directors review and designation

(1) A *Dealer Member*'s policies and procedures must require its board of directors or the executive committee of the *Dealer Member's* board of directors to:

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(i) review and approve the insurance requirements and level of coverage at least annually, and

(ii) designate an appropriate *Executive* to be responsible for insurance matters.

4467. Executive review

(1) A *Dealer Member*'s policies and procedures must require the *Executive* responsible for insurance matters:

(i) review regularly the terms of the *Dealer Member's* insurance policies and design of the *Dealer Member's* operating procedures so that the *Dealer Member* is in compliance with those terms,

(ii) monitor business changes and evaluate the need for changes in coverage or operating procedures, and

(iii) monitor business operations so that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.

4468. Executive prompt action

(1) A *Dealer Member*'s policies and procedures must require the appropriate *Executive* to:

(i) take prompt action to avert or remedy any projected or actual insurance deficiency, and

(ii) notify *IIROC* immediately of any deficiencies, pursuant to clause 4461(1)(ii).

4469. - 4499. Reserved.

IIROC Rule

RULE 4500

FINANCING ARRANGEMENTS - REPURCHASE MARKET TRADING PRACTICES

4501. Introduction

(1) Rule 4500 sets out a standard set of trading practices to increase the transparency of the *repurchase agreement* or *reverse repurchase agreement* markets and to promote liquidity and efficiency in the markets.

4502. Definitions

(1) The following terms have the meaning set out below when used in Rule 4500:

"best efforts"	A *repurchase agreement* or *reverse repurchase agreement* trade where the buyer assumes the risk that the seller cannot deliver the securities within the specified time.
"CDSX"	The *CDS* clearing and settlement system comprising the Depository Service and the Settlement Service.
"forward repo"	A *repurchase agreement* or *reverse repurchase agreement* trade that settles later than next day.
"general collateral"	Government of Canada *debt* that is *CDSX* eligible, including real-return bonds and strips (residuals and coupons). For real-return bonds an all-in price should be used and the coupon exchanged on coupon payment date.
"inter-dealer broker"	An organization that provides clients information, electronic trading and communications services for trading in wholesale financial markets.
"odd-lot"	A lot less than $25 million for either: (i) overnight and term *general collateral*, or (ii) specials, both term and overnight.

4503. General

(1) A *Dealer Member* trading in the *repurchase agreement* or *reverse repurchase agreement* market that does not include all necessary terms about sales and set-offs in an agreement with the other party must make a capital adjustment as set out in Form 1.

4504. Marking to market

(1) Unless otherwise agreed by the parties, a *Dealer Member* must periodically review its margins to ensure that they are still appropriate for the maturity dates.

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(2) Unless otherwise agreed by the parties, a *Dealer Member* that wants to mark-to-market its counterparties must do so by 11:30 a.m.. The mark-to-market must be done on a net basis and not done by issue.

(3) If the parties cannot agree on a price, the current mid-market prices must be used to determine the mark-to-market price. A *Dealer Member* must use the composite prices on an *inter-dealer broker's* screen to determine mid-market price.

(4) A *Dealer Member* must maintain margin through margin calls and not through substitutions.

(5) Cash and collateral considerations:

(i) unless the parties agree otherwise, all dealer-to-dealer margin calls must be met with the transfer of cash or collateral,

(ii) if a *Dealer Member* chooses to meet the margin call with cash, the cash must not be used to change the economic nature of the trade. The cash will bear interest at the rate agreed between the parties,

(iii) if a *Dealer Member* chooses to meet a margin call using collateral, the collateral must have characteristics similar to or better than the security being repurchased or resold, be reasonably acceptable to the other party and be applied on a reasonable basis, and

(iv) a *Dealer Member* may deliver a maximum of one piece of collateral per million dollars.

(6) A *Dealer Member* that wishes to substitute previously margined collateral must do so by 11:30 a.m.

4505. Forward repo trade confirmations

(1) A *Dealer Member* must send the client a confirmation of all *forward repo* trades on the trade date of the trade agreement.

(2) In addition to the disclosures set out in section 3816, the written confirmation must contain, at a minimum, the:

(i) money or par amount, as applicable,

(ii) start date,

(iii) end date,

(iv) interest rate,

(v) collateral type, and

(vi) any substitution rights.

(3) All *forward repo* trades must be confirmed on the *CDSX* system.

4506. Obligation to make coupon payments

(1) A *repurchase agreement* or *reverse repurchase agreement* seller must receive payment from the *repurchase agreement* or *reverse repurchase agreement* buyer of any income on the securities that the seller would have been entitled to if it had not entered the *repurchase agreement* or *reverse*

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repurchase agreement transaction.

(2) A *repurchase agreement* or *reverse repurchase agreement* buyer does not need to transfer an amount equal to the income payment to the *repurchase agreement* or *reverse repurchase agreement* seller, but can apply it to reduce the amount transferred to the *repurchase agreement* or *reverse repurchase agreement* buyer at the end of the transaction. All *repurchase agreements* or *reverse repurchase agreements* are priced this way, unless otherwise agreed.

4507. Substitutions

(1) A *repurchase agreement* or *reverse repurchase agreement* purchaser does not need to accept collateral substitutions unless it agreed to do so before the transaction.

(2) Collateral passed for an overnight or term trade may be substituted on a *best efforts* basis only.

4508. General collateral repurchase agreement or reverse repurchase agreement allocations

(1) *General collateral* transactions in the *repurchase agreement* or *reverse repurchase agreement* market are allocated based on the type of transaction. The general allocation methods for cash settlements, forward settlements and replacement transactions when substitutions occur are set out in section 4508.

(2) Money-fill basis:

(i) *general collateral* transactions are completed on a money-fill basis as explained in clause 4508(2)(ii), unless otherwise agreed,

(ii) a transaction executed on a money-fill basis means that the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocations will be no more than two issues to make $50 million, and

(iii) clause 4508(2)(ii) applies to cash trades, forward settlements and substitutions.

(3) If a transaction is executed on a par basis:

(i) the allocated amount must equal the par amount for cash and forward settlements, and

(ii) for substitutions, the replacement transaction must be done on the basis of the par amount originally transacted.

(4) Special *repurchase agreement* or *reverse repurchase agreement* trades must be done on a par basis.

4509. Confidentiality

(1) Subject to subsection 4509(3), all *Dealer Members* and *inter-dealer brokers* must maintain the confidentiality of the names of the parties to a trade.

(2) *Dealer Members* and *inter-dealer brokers* must not ask questions to try to discover the identity of a party.

(3) Certain information may be disclosed as follows:

(i) for a trade that is done through an *inter-dealer broker*, a *Dealer Member* may disclose the identity of a party to only counterparties to the trade after the trade is completed,

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(ii) an *inter-dealer broker* may inform a *Dealer Member* that it does not have a line of credit with the other party to the trade before a market is made, as long as it does not give any other information about that party, (iii) for a name "give up" trade, the full names of parties must be disclosed to counterparties to the trade at the time of the trade to ensure that *Dealer Members* follow proper credit procedures, and (iv) subsections 4509(1) and 4509(2) do not prevent *Dealer Members* or *inter-dealer brokers* from asking or answering questions to determine the size of the bid or offer.
4510. - 4599. Reserved.

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RULE 4600

FINANCING ARRANGEMENTS - CASH AND SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for cash and securities loan, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions and includes:

(i) definitions,

(ii) general requirements,

(iii) written agreement requirement,

(iv) cash and securities loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty*,

(v) cash and securities loans between *regulated entities*, and

(vi) cash and securities loans with other counterparties.

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"overnight cash loan agreement"	An oral or written agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
"Schedule I chartered bank"	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the securities loan transaction.

4603. General requirements

(1) **Marking to market**

(i) Borrowed securities and collateral must be marked to market daily on a loan by loan basis.

(2) **Record transactions**

(i) A *Dealer Member* must record all financing transactions in its *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep financing accounts separate from the *Dealer Member's* securities trading accounts.

(ii) A *Dealer Member* must keep financing accounts separate from the client's securities trading accounts.

(4) **Confirmations and month-end statements**

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(i) A *Dealer Member* must issue confirmations and month-end statements, except when the transaction with other *regulated entities* is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

(i) A *Dealer Member* must begin a buy-in (liquidating transaction) within two *business days* of the date on which the buy-in notice is given.

4604. Written agreement requirement

(1) If a *Dealer Member* has a cash and securities loan agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in section 5840.

(2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(3) If a *Dealer Member* does not have a written agreement for a securities loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.

4605. Cash and securities loans between a Dealer Member and an acceptable institution or acceptable counterparty

(1) When a cash or securities loan is between a *Dealer Member* and an *acceptable institution* or an *acceptable counterparty*, they may use as collateral letters of credit that a *Schedule I chartered bank* issues.

4606. Cash and securities loans between regulated entities

(1) If a cash or securities loan is between *regulated entities*:

(i) the *written cash and securities loan agreement* must state that either party has the right, at any time by giving notice to the other party, to call for any shortfall in the difference between the collateral and the borrowed cash or securities, and

(ii) they may use as collateral, a *Schedule I chartered bank* letter of credit.

4607. Cash and securities loans with other counterparties

(1) When a cash or securities loan is between a *Dealer Member* and a party to which neither section 4605 nor 4606 applies, a *Dealer Member* must comply with subsections 4607(2) and 4607(3).

(2) Securities pledged as collateral must:

(i) be held by:

(a) the *Dealer Member* in *segregation*,

(b) an *acceptable clearing corporation*, or

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(c) a bank or trust company that is either an *acceptable institution* or an *acceptable counterparty* under an escrow agreement. The escrow agreement must be between the *Dealer Member* and the depository, institution, or counterparty and must be in a form acceptable to *IIROC*, (ii) either: (a) be securities with a margin rate of 5% or less, or (b) be preferred shares or *debt securities*, convertible into common shares of the class borrowed. (3) If a *Dealer Member* does not comply with subsection 4607(2) or clause 4603(3)(i), its *net allowable assets* are subject to a charge calculated in the same manner as for client account short securities balances. **4608. - 4699. Reserved.**

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RULE 4700

OPERATIONS – BUSINESS CONTINUITY AND GENERAL TRADING AND DELIVERY STANDARDS

4701. Introduction

(1) Rule 4700 sets out the following requirements relating to *Dealer Member* operations:

Part A - Business continuity plan
[sections 4710 through 4714]

Part B - General trading and delivery standards applicable to all transactions
[sections 4750 through4761]

4702. - 4709. Reserved.

Part A - BUSINESS CONTINUITY PLAN

4710. Introduction

(1) To manage risk prudently and maintain investor confidence, *Dealer Members* must ensure they can continue to carry on business after a significant disruption and provide clients with prompt access to their assets.

4711. Creating a business continuity plan

(1) A *Dealer Member* must establish and maintain a business continuity plan.

4712. Business continuity plan procedures

(1) A *Dealer Member's* business continuity plan must identify the procedures it will take to deal with a significant business disruption.

(2) The procedures in subsection 4712(1) must be based on the *Dealer Member's* assessment of its key business functions and required levels of operation during and following a disruption.

(3) The procedures in subsection 4712(1) must provide reasonable assurance the *Dealer Member* stays in business long enough to meet its obligations to its clients and capital markets counterparties after a significant business disruption.

4713. Update business continuity plan

(1) A *Dealer Member* must update its business continuity plan to reflect any significant change in any of its operations, structure, business, or locations.

4714. Annual review and test

(1) Every year:

(i) a *Dealer Member* must review and test, and

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(ii) an appropriate *Executive* must approve,

its business continuity plan.

(2) During its annual review, a *Dealer Member* must make any modifications to its business continuity plan that are necessary due to changes in its operations, structure, business, or locations.

(3) *IIROC* may require a qualified third party to carry out the annual review and test.

4715. – 4749. Reserved.

Part B - GENERAL TRADING AND DELIVERY STANDARDS APPLICABLE TO ALL TRANSACTIONS

4750. Introduction

(1) Part B of Rule 4700 sets out general trading and delivery requirements applicable to all transactions. Additional requirements applicable to transactions that are not cleared and settled through a clearing corporation can be found in Part A of Rule 4800.

4751. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4700:

"acceptable trade matching utility"	The broker-to-broker trade matching utility in *CDS's CDSX* (defined in section 4502), or a similar system approved by *IIROC*. A list of approved acceptable trade matching utilities is updated and published as a notice by *IIROC.*
"depository eligible transactions"	Transactions in securities where the affirmation and settlement can be performed through the facilities or services of *CDS*.
"eligible securities"	Securities that are eligible to be deposited in the clearing corporation.
"good delivery securities"	Securities that can be transferred without restrictions and delivered to the buyer of the securities.
"non-exchange trade"	Any trade in a *CDS eligible security* (excluding new issue trades and *repurchase agreement* transactions and *reverse repurchase agreement* transactions) between two *Dealer Members*, which has not been submitted to the *CDS* continuous net settlement service by a *Marketplace* or an *acceptable foreign marketplace*. A non-exchange trade includes the dealer to dealer portion of a jitney trade that is executed between two *Dealer Members* that is not reported by a *Marketplace* or an *acceptable foreign marketplace.*
"participant"	A participant in a clearing corporation's *settlement service.*

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"qualified Canadian trust company"	A trust company licensed to do business in Canada or a Canadian province with a minimum paid up capital and surplus of $5,000,000
"settlement service"	A securities settlement service made available by *CDS*.

4752. Use of a clearing corporation

(1) *Dealer Members* who are *participants* in the same clearing corporation must use the clearing corporation's *settlement service* to settle all trades between themselves involving *eligible securities*, unless both the delivering *Dealer Member* and the receiving *Dealer Member* agree otherwise.

(2) If a *Dealer Member* is using a clearing corporation to settle a trade, it must report and settle the trade in accordance with the requirements set out in Part B of Rule 4700 and the clearing corporation's rules and procedures.

(3) If a *Dealer Member* is not using a clearing corporation to settle a trade it must report and settle the trade in accordance with the requirements set out in Part B of Rule 4700 and Part A of Rule 4800.

4753. Use of a trade matching utility

(1) For each *non-exchange trade*, involving *CDS eligible securities*, executed by a *Dealer Member* with another *Dealer Member*, the *Dealer Member* must at or before 6 p.m. on the day the trade was executed:

(i) enter the trade into an *acceptable trade matching utility*, or

(ii) accept or reject any trade entered into an *acceptable trade matching utility* by another *Dealer Member*.

4754. Trade classification where a Dealer Member enters a trade into the matching utility

(1) If a *Dealer Member* enters a trade into an *acceptable trade matching utility* under clause 4753(1)(i), the trade is considered for each dealer trade counterparty to be a compliant trade, a "don't know" (DK) trade or a non-compliant trade according to the following table:

		Action of Dealer Member	
		Enter trade at or before 6 p.m.	Enter trade after 6 p.m.
Action of other Dealer Member	Enter trade at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* compliant trade
	Accept trade at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	
	Enter or accept trade after 6	*Dealer Member* compliant trade	*Dealer Member* non-

	p.m.	Other *Dealer Member* non-compliant trade	compliant trade Other *Dealer Member* non-compliant trade
Reject trade at or before 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* don't know or DK trade		
Reject trade after 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* don't know or DK trade	
No action	*Dealer Member* compliant trade Other *Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade	

4755. Trade classification where a Dealer Member does not enter a trade into the matching utility

(1) If a *Dealer Member* accepts or rejects a trade entered into an *acceptable trade matching utility* by another *Dealer Member* under clause 4753(1)(ii) or takes no action on a trade entered into an acceptable trade matching utility by another *Dealer Member*, the trade is considered for each dealer trade counterparty to be a compliant trade, a "don't know" (DK) trade or a non-compliant trade according to the following table:

		Action of other Dealer Member	
		Enter trade at or before 6 p.m.	Enter trade after 6 p.m.
Action of Dealer Member	Accept at or before 6 p.m.	*Dealer Member* compliant trade Other *Dealer Member* compliant trade	
	Accept after 6 p.m.	*Dealer Member* non-compliant trade Other *Dealer Member* compliant trade	*Dealer Member* non-compliant trade Other *Dealer Member* non-compliant trade
	Reject at or before 6 p.m.	*Dealer Member* don't know or DK trade Other *Dealer Member* don't know or DK trade	
	Reject after 6 p.m.	*Dealer Member* non-compliant trade	*Dealer Member* don't know or DK trade

		Other *Dealer Member* don't know or DK trade	Other *Dealer Member* non-compliant trade
No action	*Dealer Member* non-compliant trade	*Dealer Member* non-compliant trade	
	Other *Dealer Member* compliant trade	Other *Dealer Member* non-compliant trade	

4756. Trade matching quarterly compliant trade percentage

(1) A *Dealer Member* must:

(i) promptly report to *IIROC* when its quarterly compliant trade percentage is less than 90% in any quarter, and

(ii) include in this report its action plan to improve its percentage.

(2) The quarterly compliant trade percentage for a *Dealer Member* is determined by dividing the sum of the quarter's compliant trades (which does not include "don't know" trades) by the total number of *non-exchange trades* that are executed during the quarter by the *Dealer Member* with other *Dealer Members*.

(3) Failure to increase the compliant trade percentage to 90% or more within the next quarter after the first sub-standard report will be grounds for *IIROC* to pursue disciplinary action.

4757. Payment or delivery through client settlement agent

(1) For any arrangement where the payment of securities purchased or delivery of securities sold is to be made to or through a client's settlement agent, all of the following procedures must be followed:

(i) the *Dealer Member* receives from the client prior to or at the time of accepting the order the name and address of the settlement agent and account number of the client on file with the settlement agent. Where settlement is made through a depository offering an identification number system for the clients of settlement agents of the depository, the *Dealer Member* must have the client identification number prior to or at the time of accepting the order and use the number in the settlement of the trade,

(ii) each order accepted from the client is identified as either a delivery or receipt against payment trade,

(iii) the *Dealer Member* provides to the client a confirmation according to Rule 3800,

(iv) the *Dealer Member* has obtained an agreement from the client stating that the client will:

(a) promptly provide its settlement agent with instructions regarding the transaction following its receipt of the transaction confirmation from the *Dealer Member*, or the relevant date and information as to each execution from the *Dealer Member*, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and

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(b) ensure that its settlement agent affirms the transaction no later than the next *business day* after the date of execution of the trade to which the confirmation relates,

and

(v) the client and its settlement agent must use the facilities or services of *CDS* for the affirmation and settlement of all *depository eligible transactions* through such facilities or services including book based or certificated settlement. This clause 4757(1)(v) applies only to transactions:

(a) to be settled in Canada, and

(b) where both the *Dealer Member* and the settlement agent are *participants* of *CDS* or the same facilities or services of *CDS* required in respect of the trade.

4758. Early registration of securities

(1) Prior to the receipt of payment, a *Dealer Member* must not register any security, with the exception of a new issue on a date before the close date, in the name of the client or his or her nominee. A *Dealer Member's* absorption of bank or other charges incurred by a client or his or her nominee for the registration of a security will be considered an infraction of this requirement.

(2) After the receipt of payment, a *Dealer Member* may absorb transfer fees incurred in the transfer of a security according to a client's instructions.

(3) Despite subsection 4758(1), a *Dealer Member* may register an eligible security in the name of, or in the name of a nominee of, a self-administered registered retirement savings plan registered under the Income Tax Act (Canada) before payment is received if, before the securities are registered, a *Dealer Member* obtains an unconditional *guarantee* from the trust company administering the plan.

4759. Repurchase agreement or reverse repurchase agreement transactions and option granting transactions with clients

(1) Before entering into the following transactions a *Dealer Member* must have in writing all terms relevant to the transaction on the face of the contract or if necessary, on an additional page attached to the contract provided those terms are referred to on the face of the contract, with a client:

(i) an agreement to purchase or repurchase a security,

(ii) an agreement to sell or resell a security, or

(iii) the granting of a put, call or similar *option* involving a security.

4760. When issued trading

(1) Unless otherwise provided by *IIROC* or the parties to the trade agree otherwise:

(i) all when issued trades made before the trading day before the anticipated date of issue of the security must be settled on the anticipated date of issue of such security,

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(ii) all when issued trades made on or after the trading day before the anticipated date of issue of the security must be settled on the second settlement day after the trade date, and (iii) if the security has not been issued on the settlement date in clause 4760(1)(i) or 4760(1)(ii), such trades must be settled on the date that the security is actually issued.
4761. Tax payments (1) A selling *Dealer Member* must pay, or certify payment of, taxes required for a buying *Dealer Member* to transfer the securities purchased to nominee name, except in the situation where there is a register in the buying *Dealer Member's* province, and the buying *Dealer Member* chooses to transfer the securities to a register outside that province.
4762. – 4799. Reserved.

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RULE 4800

OPERATIONS – TRADING AND DELIVERY STANDARDS FOR NON-CENTRALLY CLEARED TRANSACTIONS AND ACCOUNT TRANSFERS

4801. Introduction

(1) Rule 4800 sets out the following requirements relating to *Dealer Member* operations:

Part A - Trading and delivery standards applicable to transactions that are not cleared and settled through a clearing corporation:

Part A.1 - Fixed income transactions

[sections 4803 through 4806]

Part A.2 - Stock transactions

[sections 4807 through 4809]

Part A.3 - Buy-in transactions

[section 4810]

Part B - Account transfers

[sections 4850 through 4865].

Part A - TRADING AND DELIVERY STANDARDS APPLICABLE TO TRANSACTIONS THAT ARE NOT CLEARED AND SETTLED THROUGH A CLEARING CORPORATION.

4802. Introduction

(1) Part A of Rule 4800 sets out additional requirements applicable to transactions that are not cleared and settled through a clearing corporation.

Part A.1 – Fixed income transactions

4803. Fixed income accrued interest

(1) All securities having interest payable as a fixed obligation, except securities in sale and *repurchase agreement* transactions, must be conducted on an accrued interest basis until maturity or a default in such payment either occurs or is announced by the debtor, whichever is the earlier event. *IIROC* may set aside this requirement in specific cases where common practice and expediency prompt such action and will give due notice to all *Dealer Members* in such cases.

(2) Prior to actual default or announcement by the debtor as specified in subsection 4803(1), sales made of securities but undelivered at the time of default or such announcement, must be conducted on an accrued interest basis under the terms of the original transaction.

(3) Subsequent to default or announcement by the debtor as specified in subsection 4803(1), the securities must be handled on a flat basis with all matured and unpaid coupons attached, until such time as all arrears of interest have been paid and one current coupon has been paid when due.

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(4) Transactions in bonds having coupons payable out of income, if and when earned, must take place on a flat basis. Any matured and unpaid income coupons must be attached. Income bonds that have been called for redemption must continue to be traded on a flat basis even after the call date has been published.

(5) Transactions in bonds where an issuer has been subject to reorganization or capital adjustment that results in the bondholders receiving as a bonus or otherwise, certain stock or scrip, such transactions must be ex stock or scrip, unless otherwise stated at the time the trade is made. Such bonds must be traded on a flat basis until such time as all arrears have been paid and one current coupon has been paid when due, except where *IIROC* has determined otherwise.

(6) Accrued interest on trades in interest paying instruments that pay interest monthly and compound interest monthly must be zero, if the value date of the trade is an interest payment date. Otherwise, the accrued interest on such trades must be calculated by multiplying the face amount of the instrument by the interest rate of the instrument and the number of days between the value date of the trade and the last interest payment date prior to the value date of the trade and dividing the result by twelve multiplied by the number of days between the next interest payment date after the value date of the trade and the last interest payment date prior to the value date of the trade.

(7) For bonds or debentures that are only available in registered form, transactions made one *business day* before a regular interest payment and up to two *business days* before the closing of the transfer agent's books for the next interest payment, both days inclusive, will be on an "and interest" basis. The full amount of such interest payment must be deducted by the seller after the calculation of interest on the regular delivery basis, unless delivery is completed to the buyer by 12 p.m. at a transfer point on the date of the closing of the transfer agent's books for a regular interest payment.

(8) For bonds or debentures that are only available in registered form, transactions from one *business day* before the closing of the transfer agent's books up to and including two *business days* before a regular interest payment must be "less interest" from settlement date to the regular interest payment date.

(9) Where interest on a transaction involves an amount greater than that represented by the half-yearly coupon, interest is to be calculated on the basis of the full amount of the coupon less one or two days, as the case may be.

4804. Fixed income trading units

(1) Section 4804 applies to all transactions between *Dealer Members* regardless of the *Districts* the *Dealer Members* are in.

(2) In section 4804 "trading units" is defined as follows:

(i) Government of Canada

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(a) $250,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of less than one year to maturity (or to the earliest call date, where the transaction is completed at a premium),

(b) $100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term of one year or longer but three years or less to maturity (or to the earliest call date, where the transaction is completed at a premium),

(c) $100,000 par value for Government of Canada direct obligations and Government of Canada guaranteed obligations having an unexpired term to maturity of longer than three years (where the bond is traded at a premium, the earliest call date shall be treated as the maturity date).

(ii) Province of Canada

(a) $25,000 par value for bonds, debentures and other obligations of or guaranteed by a province in Canada.

(iii) Other Bonds and Debentures

(a) $25,000 par value for bonds and non-convertible debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were not issued with attached stock warrants, rights or other attachments,

(b) $5,000 par value for bonds, convertible debentures or debentures (other than Government of Canada direct obligations and Government of Canada guaranteed obligations and bonds, debentures and other obligations of or guaranteed by a province in Canada) that were issued with attached stock warrants, rights or other attachments.

(3) A *Dealer Member* calling a market must trade *trading units* if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one *trading unit* will be considered as an "odd lot".

(4) Any *Dealer Member* asking the size of a stated market must be prepared to buy or sell at least a *trading unit* at the price quoted if immediately requested to do so by the *Dealer Member* calling the market.

(5) Any *Dealer Member* who has been requested to call a market has the option to trade an *odd lot* at the called market (if so requested) or to adjust his market to compensate for the smaller amount involved.

4805. Fixed income delivery

(1) In section 4805 "regular delivery" is defined as:

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(i) Government of Canada

(a) The same day as the transaction date for Government of Canada Treasury Bills.

(b) The second *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds (except Treasury Bills) having an unexpired term to maturity of three years or less (or to the earliest call date where a transaction is completed at a premium). Any accrued interest must be stopped on the second *business day* after the transaction date.

(c) The second *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds having an unexpired term to maturity of longer than three years (where such a bond is traded at a premium the earliest call date shall be treated as the maturity date). Any accrued interest must be stopped on the second *business day* after the transaction date.

(ii) Province of Canada

(a) The second *business day* after the transaction date for all provincial bonds or debentures. Any accrued interest must be stopped on the second *business day* after the transaction date.

(iii) Other Bonds and Debentures

(a) The second *business day* after the transaction date for all municipal, corporation and other bonds or debentures (other than Government of Canada and Province of Canada treasury bills, bonds or debentures), and other certificates of indebtedness including mortgage-backed securities. Any accrued interest must be stopped on the second *business day* after the transaction date.

(2) All trades are to be considered for *regular delivery*, unless otherwise agreed to in writing by all of the parties to a transaction at the time of the transaction.

(3) For a deal involving the sale or purchase of more than one maturity, each maturity must be treated as a separate transaction. No contingent (all or none) dealings are permitted.

(4) New issues delivery

(i) The *regular delivery* requirements are not intended to interfere in any way with the common practice of transactions between *Dealer Members* in new issues during the period of primary distribution on an "accrued interest to delivery" basis. However, the *regular delivery* requirements will come into effect on the appropriate number of *business days* prior to the new issue being first available for physical delivery.

(ii) Where a new issue delivery is made against payment outside of the points fixed for the initial syndicate delivery of the issue, additional accrued interest must be charged from the delivery date at the initial syndicate delivery point of the new issue, according to the length of time normally required for delivery to the locality in which the delivery is made.

(iii) For a mortgage-backed security transaction made during the period from the second *business day* before month-end to the first *business day* on or before the twelfth day of the

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following month, inclusive, delivery must take place on or after the fifteenth day of the month.

(5) Location

(i) For any transaction between *Dealer Members* in the same municipality where physical delivery is to be made, the seller must complete the delivery before 4:30 p.m. on a *business day*.

(ii) For any transaction between *Dealer Members* in different municipalities, the seller must complete the delivery on the buyer's terms, that is the delivery is to be made by the seller free of banking or shipping charges to the buyer. Where bank drafts are drawn to arrive at their destination on a day that is not a *business day*, the seller is entitled to have charges paid up to the next *business day* after the expected arrival of the bank drafts.

(6) Good delivery

(i) Securities traded by *Dealer Members* must be *good delivery securities*. Therefore, they must have the necessary endorsements, *guarantees* or both, and meet all legal and regulatory requirements so that their titles can be transferred by delivery to the buyer on settlement date. The seller must obtain them and include them with the delivery.

(ii) *Good delivery securities* may consist of bearer bonds or debentures or registered bonds or debentures.

(iii) For good delivery, securities that can be traded as actual certificates or as certificates of deposit, delivery must be made in the form of actual certificates, unless stated otherwise at the time of the transaction.

(iv) For good delivery, the bonds or debentures are to be of a maximum denomination of $100,000 par value, unless agreed to otherwise by the buyer.

(v) For good delivery, if a power of attorney is necessary for the certificates, one power of attorney for each certificate is required, unless the buyer has agreed otherwise to accept an amalgamated power of attorney.

(vi) For good delivery, if definitive certificates are not available interim certificates may be used. However, once definitive certificates are available interim certificates may not be used, unless the *Dealer Members* agree otherwise.

(vii) *Good delivery securities* may consist of the following, provided that is it acceptable to the transfer agent:

(a) bonds or debentures registered in the name of an *individual*, properly endorsed and with endorsement guaranteed by a *Dealer Member* in good standing of *IIROC* or an *acceptable exchange* in Canada or the United States, or by a *chartered bank* or *qualified Canadian trust company,*

(b) bonds or debentures registered in the name of a *Dealer Member* or nominee of a *Dealer Member* and properly endorsed,

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(c) bonds or debentures registered in the name of a member of an *acceptable exchange* in Canada or the United States and properly endorsed,

(d) bonds or debentures registered in the name of a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or qualified trust company and properly endorsed.

(7) Not good delivery

(i) A mutilated or torn certificate or coupon unless acceptable to the receiving *Dealer Member.*

(ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt.

(iii) A certificate signed by a trustee or administrator unless accompanied by sufficient evidence of authority to sign.

(iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed power of attorney to transfer attached. (One power of attorney for each certificate or an amalgamated power of attorney if acceptable to receiving broker or dealer).

(v) A certificate which has been altered or erased (other than by the transfer agent) whether or not such alteration or erasure has been guaranteed.

(vi) A certificate on which the assignment or substitute attorney has been altered or erased.

(vii) A certificate with the next maturing coupon or subsequent coupons detached unless where so traded or where a certificate cheque (if for $1,000 or more) payable to the receiving *Dealer Member*, dated no later than the date of delivery and for the amount of the coupon missing, is attached to the certificate in question.

(viii) A bond or debenture, registered as to principal only, which after being transferred to bearer, does not bear the stamp and signature of the trustee.

(ix) A registered bond or debenture unless it bears a certificate that provincial tax has been paid where applicable.

(x) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker.

(8) Prior to notice of call

(i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. Date of notice is the date of the notice of call irrespective of the date of publication of such notice. Called securities do not constitute good delivery unless the transaction is so designated at its inception.

(ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice must be completed on the terms of the original transaction.

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4806. Fixed income redemption payment

(1) A *Dealer Member* must not pay to a client regarding any maturity the redemption price or other amount due on redemption of such securities where the price or amount exceeds $100,000, unless:

(i) the *Dealer Member* has first received an amount equal to such price or other amount from the issuer or its agent by cheque certified by or accepted without qualification by a *chartered bank,* or

(ii) the *Dealer Member* has first received or is credited an amount equal to such price or other amount through the facilities of *CDS* or Depository Trust Company.

Part A.2 – Stock transactions

4807. Stock trading units

(1) Section 4807 applies to all transactions between *Dealer Members* regardless of the *Districts* the *Dealer Members* are in.

(2) In section 4807 "trading units" is defined as follows:

(i) Common and preferred shares not listed on an *acceptable exchange* in Canada or the United States:

(a) in lots of 500 shares, if market price per share is below $1,

(b) in lots of 100 shares, if market price per share is at $1 and below $100, or

(c) in lots of 50 shares, if market price per share is at $100 or above.

(3) A *Dealer Member* calling a market shall be obliged to trade *trading units* if called upon to trade, unless prefixed by some qualifying phrase. Any amount less than one *trading unit* will be considered as an "odd lot".

(4) Any *Dealer Member* asking the size of a stated market must be prepared to buy or sell at least a *trading unit* at the price quoted if immediately requested to do so by the *Dealer Member* calling the market.

(5) Any *Dealer Member* that has been requested to call a market has the option to trade an *odd lot* at the called market (if so requested) or to adjust its market to compensate for the smaller amount involved.

4808. Stock delivery

(1) All trades are to be considered for *regular delivery* (defined in subsection 4808(2)), unless otherwise agreed to in writing by the parties to a transaction at the time of the transaction.

(2) In section 4808 "regular delivery" is defined as:

(i) Exchange-listed shares

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(a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.

(ii) Unlisted registered shares

(a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.

(b) For transactions between *Dealer Members* in shares that occur one *business day* before the record date, the shares must be traded ex dividend, ex rights, or ex payments.

(c) For transactions between *Dealer Members* in shares that are not ex dividend, ex rights, or ex payments at the time the transaction occurs and delivery is not completed before twelve o'clock noon (12 p.m.) at a transfer point on the date of the closing of the transfer agent's books, the seller is responsible to the buyer for the payment of such dividends or payments, and delivery of such rights, as may be involved, on their due dates. For the purposes of this sub-clause 4808(2)(ii)(c), where the record date falls on a Saturday or other non-*business day*, the *business day* prior to the record date is to be treated as the effective record date.

(3) New issues delivery

(i) The *regular delivery* requirements in subsection 4808(2) are not intended to interfere in any way with the common practice of dealing in new issues during the period of primary distribution. However, the *regular delivery* requirements will come into effect on the appropriate number of *business days* prior to the new issue being first available for physical delivery.

(4) Location

(i) For any transaction between *Dealer Members* in the same municipality, delivery should be advised by 11:30 a.m. on the fourth *business day* after a transaction takes place.

(ii) For any transaction between *Dealer Members* located in different municipalities, delivery should be received by the buyer by the expiration of the fourth *business day* after the transaction takes.

(5) Good delivery

(i) Securities traded by *Dealer Members* must be *good delivery securities*. Therefore, they must have the necessary endorsements, *guarantees* or both, and meet all legal and regulatory requirements so that their titles can be transferred by delivery to the buyer on settlement date. The seller must obtain them and include them with the delivery.

(ii) Certificates registered in the name of:

(a) an *individual*, must be endorsed by the registered holder in exactly the same manner as registered and the endorsement guaranteed by a *Dealer Member* or by a member of an *acceptable exchange* in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*. Where the endorsement does not exactly

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correspond to the registration shown on the face of the certificate, a certification by a *Dealer Member*, a member of an *acceptable exchange* in Canada or the United States, a *chartered bank* or a *qualified Canadian trust company* that the two signatures are the same person's is required,

(b) a *Dealer Member* or a member of an *acceptable exchange* in Canada or the United States or a nominee of either and properly endorsed,

(c) a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or *qualified Canadian trust company* and properly endorsed by a *Dealer Member*, or

(d) any other manner providing it is properly endorsed and the endorsement is guaranteed by a *Dealer Member* or by a member of an *acceptable exchange* in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*.

(iii) Certificates in board lot denominations (or less) as required by the exchange on which the stock is traded. Unlisted stocks should also be in denominations similar to listed stocks in the same category and price range.

(6) Not good delivery

(i) A mutilated or torn certificate or coupon unless acceptable to receiving broker or dealer.

(ii) A certificate registered in the name of a firm or corporation that has made an assignment for the benefit of creditors or has been declared bankrupt.

(iii) A certificate signed by a trustee or administrator unless accompanied by sufficient evidence of authority to sign.

(iv) A certificate with documents attached other than a registered bond of an issue available in registered form only, with completed power of attorney to transfer attached. (One power of attorney for each certificate or an amalgamated power of attorney if acceptable to receiving broker or dealer).

(v) A certificate that has been altered or erased (other than by the transfer agent) whether or not such alteration or erasure has been guaranteed.

(vi) A certificate on which the assignment or substitute attorney has been altered or erased.

(vii) A registered stock unless it bears a certificate that provincial tax has been paid where applicable.

(viii) A certificate that has a stop transfer placed against it, the stop having been placed prior to delivery being made to the receiving dealer or broker.

(7) Prior to notice of call

(i) Sales or purchases of securities prior to notice of call in part but not in full and undelivered on date of such notice, must be completed on the basis of the original transaction. Date of notice is the date of the notice of call irrespective of the date of publication of such notice.

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Called securities do not constitute good delivery unless the transaction is so designated at its inception.

(ii) Sales or purchases of securities prior to notice of call in full and undelivered at time of such notice must be completed on the terms of the original transaction.

4809. Stock dividend claims

(1) No *Dealer Member* shall make a certificate claim for dividends against another *Dealer Member* if the amount of such claim would be $5.00 or less.

Part A.3 - Buy-in transactions

4810. Buy-ins

(1) Buy-ins must be made within the times, using the notices prescribed, and according to *IIROC requirements*. For the purposes of clauses 4810(1)(i) through 4810(1)(v) a "regular delivery transaction" is deemed to have taken place once the *Dealer Members* involved have agreed on a price.

(i) For transactions between *Dealer Members* in the same municipality, where the seller does not advise the buyer about the delivery by 11:30 a.m. on the fourth *business day* after a regular delivery transaction:

(a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to *IIROC* on that day, or any subsequent *business day*, prior to 3:30 p.m., of his or her intention to buy-in for cash on the second *business day* after the original notice.

(b) The notice is deemed to automatically renew itself from *business day* to *business day* from 11:30 a.m. until closing until the transaction is finally completed.

(c) Where the buy-in is not executed on the second *business day* after the original notice, the seller has the privilege of advising the buyer each subsequent day before 11:30 a.m. of his or her ability, and intention, to make either whole or partial delivery on that day.

(ii) For transactions between *Dealer Members* in different municipalities, where delivery has not been received by the buyer at the expiration of four *business days* after the transaction takes place, on or after the fourth *business day*:

(a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to *IIROC* on that day by 12 p.m. (the seller's time) his or her intention to buy-in for cash on the third *business day* after the original notice.

(b) Where the seller has not advised the buyer in writing by 5 p.m. (the buyer's time) on the day after the original notice that the securities covered by the buy-in have passed

through his or her clearing and are in transit to the buyer, the buyer may proceed to execute the buy-in on the third *business day* after the original notice.

(c) The notice is deemed to automatically renew itself from *business day* to *business day* and the seller forfeits all rights to complete delivery other than the portion of the transaction that is in transit by the day following the receipt of the original notice. The buyer may at his or her option allow the seller to complete delivery of any remaining portion of the transaction.

(iii) Any *Dealer Member* who is bought-in may demand evidence that a bona fide transaction has taken place involving the delivery of the bought-in securities. The *Dealer Member* who is bought-in has the right, to deliver such part of his or her commitment according to clauses 4810(1)(i) and 4810(1)(ii) and must complete any such delivery to the nearest $1,000 par value, or stock *trading unit*.

(iv) *IIROC* has the authority to postpone the execution of a buy-in from day to day, and to combine buy-ins in the same security, and to decide any dispute arising from the execution of the buy-in, and its decision is final and binding.

(v) When a buy-in has been completed the buyer must submit to the seller a statement of account showing:

(a) as credits, the amount originally contracted for as payment for the securities, and

(b) as debits, the amount paid on buy-in, the cost of the buyer's communication charges relative to the buy-in, and any bank or shipping charges incurred.

Where there is a credit balance remaining, the buyer must pay this amount to the seller, and where there is a debit balance remaining, the seller must pay this amount to the buyer.

4811. – 4849. Reserved.

Part B - ACCOUNT TRANSFERS

4850. Introduction

(1) Part B of Rule 4800 describes *IIROC's requirements* for transferring accounts between *Dealer Members* to ensure these transfers are completed promptly.

4851. Definitions

(1) The following terms have the meaning set out below when used in Part B of Rule 4800:

"account transfer"	A client account transfer, at the request of or with the authority of the client, from one *Dealer Member* to another *Dealer Member*.
"delivering Dealer Member"	The *Dealer Member* from which the client account is being transferred.
"partial account"	Less than the total assets and balances in a client account held by a *delivering Dealer Member.*

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"receiving Dealer Member"	The *Dealer Member* to which the client account is being transferred.
"recognized depository"	An *IIROC* recognized clearing corporation or depository that is considered an *acceptable securities location*.

4852. Transferring a full or partial account

(1) A *Dealer Member* transferring a full or *partial account* must comply with Part B of Rule 4800.

4853. Transfer through a recognized depository

(1) Whenever possible, a *Dealer Member* transferring a client account must transfer that account through a *recognized depository*.

4854. Communications between Dealer Members

(1) Communications between *Dealer Members* must take place by electronic delivery through *CDS's* account transfer facility, unless both *Dealer Members* agree otherwise.

(2) A *Dealer Member* must pay its costs for delivering or receiving electronic communications done under Part B of Rule 4800.

(3) A *Dealer Member* must select, implement, and maintain appropriate security measures to protect its electronically delivered communications.

(4) *Dealer Member* acknowledgement and indemnification:

(i) a *Dealer Member* acknowledges that an electronically delivered communication it sends will be relied on by the *Dealer Member* receiving it,

(ii) a *Dealer Member* must indemnify and save harmless other *Dealer Members* from any claims, losses, damages, liabilities or expenses the *other Dealer Members* suffer as a result of relying on its unauthorized, inaccurate, or incomplete electronic communication.

4855. Receiving Dealer Member - responsibilities for documents

(1) If a *receiving Dealer Member* receives a request from a client to accept an account, it must obtain written authorization from the client to transfer the account.

(2) After the client gives written authorization to the *receiving Dealer Member,* the *receiving Dealer Member* must:

(i) promptly send a request for transfer (using an account transfer authorization form approved by *IIROC*) through *CDS* to the *delivering Dealer Member*, and

(ii) keep the original written account transfer authorization form on file.

(3) The *receiving Dealer Member* must ensure that the forms or documents required to transfer accounts are completed and available on the same day as the request for transfer is delivered.

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4856. Delivering Dealer Member - response to request for transfer

(1) When it receives the request for transfer, the *delivering Dealer Member* must either:

(i) deliver to the *receiving Dealer Member*, by the specified return date, the asset list for the client account being transferred, or

(ii) reject the request for transfer if the client account information is unknown to the *delivering Dealer Member* or is incomplete or incorrect.

(2) The return date in clause 4856(1)(i) must be no later than two *clearing days* after the date that the *delivering Dealer Member* received the request for transfer.

4857. Asset transfer

(1) Within one *clearing day* after the specified return date the *delivering Dealer Member* must commence, or cause *CDS's* account transfer facility to implement automatically, the transfer of the assets through *CDS*.

(2) Any assets that cannot be transferred through a *recognized depository* must be settled:

(i) over-the-counter,

(ii) by other standard industry practices, or

(iii) by other appropriate means agreed between the *receiving Dealer Member* and the *delivering Dealer Member*.

The time limits in subsection 4857(1) apply.

4858. Transfer impediment

(1) If there is an impediment to the requested transfer of an account asset, the *delivering Dealer Member* must promptly notify the *receiving Dealer Member*, identifying the asset and the reason for the inability to deliver.

(2) The *receiving Dealer Member* must get client instructions or directions concerning the asset, and deliver them to the *delivering Dealer Member.*

(3) The balance of the client's assets must be transferred according to Part B of Rule 4800.

4859. Failure to settle

(1) If the *delivering Dealer Member* fails to settle an asset transfer in a client account within 10 *clearing days* of receipt of the request for transfer, the *receiving Dealer Member* may complete the *account transfer*, at its option, by:

(i) buying-in the unsettled position in accordance with section 4810,

(ii) lending the security to the *delivering Dealer Member* through a *recognized depository* and simultaneously transferring the same security into the client account, or

(iii) making other mutually agreed arrangements with the *delivering Dealer Member* so that the *account transfer* can be considered completed.

IIROC Rule

(2) Any loan in clause 4859(1)(ii) must be marked to market and the assets will be considered delivered to the *receiving Dealer Member* to settle the *account transfer*.

4860. Non-certificated mutual funds

(1) Non-certificated mutual fund securities are considered transferred when the *delivering Dealer Member* delivers to the *receiving Dealer Member*:

(i) a completed mutual fund transfer form, and

(ii) a completed and signed power of attorney, or

(iii) by entry of transfer instructions in the electronic account transfer facility of FundSERV Inc.

4861. Interest or dividend receipt balances

(1) Interest or dividend receivable balances must be settled promptly between a *delivering Dealer Member* and *receiving Dealer Member*. Despite any failure to settle these balances, a *Dealer Member* must comply with the *account transfer* procedures in Part B of Rule 4800.

4862. Margin

(1) A *Dealer Member* must not accept an *account transfer* from another *Dealer Member* if the account has a margin deficiency.

(2) Subsection 4862(1) does not apply if at the *account transfer* time the *receiving Dealer Member* has sufficient funds or collateral to the client's credit available to cover the account's margin deficiency.

4863. Responsibility for margining account

(1) The *receiving Dealer Member* assumes the responsibility for the margining of transferred account money balances and assets on the date or dates the money balances or assets are received.

4864. Fees and charges

(1) Before or at the time of *account transfer*, a *delivering Dealer Member* may deduct any fee or charge on the account in accordance with the *delivering Dealer Member's* current published fee and charge schedule.

4865. IIROC exemption

(1) *IIROC* may exempt a *Dealer Member* from the requirements of Part B of Rule 4800 if *IIROC* is satisfied that to do so would not prejudice the interests of the *Dealer Member*, its clients, or the public.

(2) In granting an exemption under subsection 4865(1), *IIROC* may impose any terms and conditions it considers necessary.

4866. – 4899. Reserved.

IIROC Rule

RULE 4900

OTHER INTERNAL CONTROL REQUIREMENTS – DERIVATIVES RISK MANAGEMENT

4901. Introduction

(1) Rule 4900 sets out the *internal control* requirements for *Derivative* risk management.

4902. - 4909. Reserved.

DERIVATIVES RISK MANAGEMENT

4910. Introduction

(1) A *Dealer Member* must have an independent risk management function to:

(i) manage the risks resulting from its use of *derivatives*, which include exchange and over-the-counter traded *derivatives*,

(ii) ensure that an appropriate *Executive* that reports to the board of directors understands all risks, and

(iii) ensure that its *risk adjusted capital* is calculated properly.

4911. Reserved.

4912. Risk management process

(1) A *Dealer Member* must have a risk management function with clear independence and authority to ensure risk limit policies are developed and transactions and positions are monitored for adherence to these policies.

(2) A *Dealer Member* must have a risk management process to identify, measure, manage, and monitor risks associated with the use of *derivatives*.

(3) The risk management process has two parts:

(i) An appropriate *Executive* must be knowledgeable of the nature and risks of all *derivative* products used in treasury, proprietary, institutional and retail activities, and

(ii) The *Dealer Member*'s policies and procedures must clearly outline risk management guidance for *derivatives* activities.

(4) A *Dealer Member's* financial accounting department must measure the *Dealer Member's* revenue components regularly and in sufficient detail to understand risk sources.

4913. Role of board of directors

(1) A *Dealer Member's* board of directors or equivalent must approve policies and procedures relating to significant risk management to provide reasonable assurance they are consistent with the *Dealer Member's* overall broader business strategies and appropriate for market conditions.

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(2) An appropriate *Executive* must report at least annually to the *Dealer Member's* board of directors on a *Dealer Member's* risk exposure.

4914. Role of an appropriate Executive

(1) An appropriate *Executive* must ensure that for *derivative* products:

(i) The *Dealer Member*'s policies and procedures specifically address processing, trading, monitoring and reporting cycles including:

(a) clear responsibility lines for risk management,

(b) an adequate system for measuring risk,

(c) appropriate risk position limits,

(d) effective *internal controls*, and

(e) a comprehensive reporting process,

(ii) if risk position limits are exceeded, there is a system to ensure that these excesses are approved only by authorized *employees* and communicated to an appropriate *Executive*,

(iii) all appropriate approvals are obtained and adequate operational procedures and risk control systems are in place,

(iv) appropriate risk control systems address market, credit, legal, operational, and liquidity risks,

(v) *derivatives* activities are undertaken by a sufficient number of professionals with appropriate experience, skill levels, and certification,

(vi) risk management procedures are regularly evaluated for appropriateness and soundness,

(vii) it approves all standard and non-standard *derivative* product programs,

(viii) there is an accurate, complete, informative, and timely management information system, and

(ix) the risk management function monitors and reports risk metrics to the *Dealer Member's* appropriate *Executives* and to the *Dealer Member's* board of directors or equivalent.

4915. Pricing

(1) In addition to the requirements in Part C of Rule 4200, a *Dealer Member* must comply with the requirements in subsections 4915(2) through 4915(4) in pricing *derivatives*.

(2) *Derivatives* positions must be marked to market at least daily.

(3) A *Dealer Member's* independent risk management function must:

(i) validate all pricing models, including computing market data or model inputs,

(ii) review and approve pricing models and valuation systems used by front and back-office *employee*s, and

(iii) review and approve reconciliation procedures if different systems are used.

(4) Valuations derived from models must be independently reviewed at least monthly.

IIROC Rule
4916. – 4999. Reserved.

IIROC Rule

RULE 5100

MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

5101. Introduction

(1) Rule 5100:

(i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],

(ii) sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and

(iii) sets out the definitions used within Rules 5200 through 5900 [section 5130].

5102. - 5109. Reserved.

5110. Margin requirements - purposes

(1) The purposes of margin requirements are to:

(i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,

and

(ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading or client account margin lending.

(2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

5111. Margin requirements - general application

(1) A *Dealer Member* must:

(i) obtain from and maintain for each of its clients, and

(ii) maintain for its own inventory accounts,

minimum margin in the amount and manner prescribed by *IIROC*.

(2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.

(3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on securities owned and sold short when calculating its *risk adjusted capital*.

IIROC Rule

(4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the security or *derivative* position for which margin is being calculated.

5112. Application of margin requirements - Dealer Member inventory positions

(1) Section 5112 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.

(2) **Dealer Member long inventory margin**

A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of security, or

(ii) by any alternative method specified in the *IIROC requirements*.

(3) **Dealer Member short inventory margin**

A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:

(i) applicable margin rate x *market value* of security (expressed as absolute value), or

(ii) by any alternative method specified in the *IIROC requirements*.

5113. Application of margin requirements - client account positions

(1) Section 5113 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.

(2) **Client accounts - loan value of long positions**

The *loan value* of a long position is generally calculated according to the formula:

(i) [100% - applicable margin rate %] x positive *market value* of the security, or

(ii) by any alternative method specified in the *IIROC requirements*.

(3) **Client accounts - loan value of short positions**

The *loan value* of a short client position is generally calculated according to the formula:

(i) [100% + applicable margin rate %] x negative *market value* of security, or

(ii) by any alternative method specified in the *IIROC requirements*.

(4) **Net loan value and status of a client account**

(i) The positive and negative *loan values* in a client margin account must be totalled.

(ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.

(iii) If the total *loan value* in a client account results in a net negative *loan value,* the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.

IIROC Rule

(iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

5114. Client securities that are collateral for a margin debt

(1) If a client is in debt to a *Dealer Member*, all securities the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.

(2) The securities a *Dealer Member* holds under subsection 5114(1) are collateral security subject to Form 1, Schedule 4 and to any agreement between the *Dealer Member* and the client.

5115. Dealer Member's rights in securities of indebted clients

(1) A *Dealer Member* has the right to:

(i) raise money on,

(ii) carry in its general loans, and

(iii) pledge and repledge,

the client securities it holds as collateral under section 5114.

5116. Dealer Member may buy or sell client securities

(1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:

(i) buy securities held short for an indebted client, or

(ii) sell securities it holds for an indebted client.

5117. Dealer Member's right to recover from indebted client

(1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's securities.

5118. - 5119. Reserved.

5120. Margin requirements - when a rate is not specified

(1) Where a security position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the *IIROC requirements*, the *Dealer Member* must obtain a margin rule interpretation from *IIROC* staff specifying the margin rate or requirement to be used.

5121. - 5229. Reserved.

5130. Definitions

(1) In Rules 5100 through 5900, unless stated otherwise, any term used that is not defined here or in the Rule where it is used, but is defined or used in Form 1, has the meaning defined or used in Form 1.

IIROC Rule

(2) For all positions subject to margin, the term:

"client account margin"	(i) A minimum percentage of a security's or *derivative* contract's *market value*, or (ii) a calculated dollar amount that a client must deposit with a *Dealer Member* when borrowing from the *Dealer Member* to buy securities or to sell securities short or to enter into the *derivative* contract.
"Dealer Member inventory margin"	(i) A minimum percentage of a security's or *derivative* instrument's *market value*, or (ii) a calculated dollar amount that a *Dealer Member* must provide when calculating its *risk adjusted capital*.
"equivalent number" or "equivalent quantity" or "equivalent quantities"	(i) A position with the same underlying number of shares, units of the same issuer, (ii) *futures contracts* based on the same underlying number of shares, units of the same issuer, or (iii) a position with the same currency denomination and *market value*, as the offset or combination position with which it is paired.
"loan value"	The complement of the *client account margin* and is the maximum a *Dealer Member* may loan to a client for a particular security or *derivative* position.
"normal margin" or "normal margin required"	Margin otherwise required in Rules 5200 through 5900.
"underlying interest" or "underlying security" or "underlying basket of securities"	In the case of: (i) a *convertible security,* the security to be received upon invoking the conversion or exchange feature, (ii) an *exercisable security,* the security to be received upon invoking the exercise feature, (iii) an *index participation unit,* the basket of securities to be received upon invoking the conversion or exchange feature, (iv) an *installment receipt*, the security that has been purchased on an installment basis by the holder of the *installment receipt*, (v) residual debt securities and strip debt securities, the *debt security*

	used to create the residual debt securities and strip debt securities, (vi) currency *options*, the currency referenced by the *option*, (vii) equity, *index participation unit* and debt *options*, the security referenced by the *option*, (viii) *index options*, the *index* referenced by the *option*, and (ix) a *total performance swap*, the security or basket of securities on which the swap is based.

(3) For positions in and offsets involving *debt securities* and related instruments, the term:

"acceptable commercial, corporate and finance company notes"	Notes issued by a company that meet the requirements in subsection 5220(2).
"call protection period"	The period of time during which the issuer cannot redeem a *callable debt security*.
"callable debt security"	A *debt security* which can be redeemed by the issuer at a fixed price at any time other than during the *call protection period*.
"Canada debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by the government of Canada.
"Canada Municipal debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by a Canadian municipal government.
"Canada Provincial debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by a Canadian provincial government.
"Canada Provincial residuals"	A residual portion from a *debt security* issued or guaranteed by a Canadian province.
"Canada Provincial strips"	A strip coupon from a *debt security* issued or guaranteed by a Canadian province.
"Canada residuals"	A residual portion from a *debt security* issued or guaranteed by the Government of Canada.
"Canada strips"	A strip coupon from a *debt security* issued or guaranteed by the Government of Canada.
"Canadian banker acceptance futures	A three month Canadian bankers acceptance *futures contract* that trades on the Bourse de Montreal under the "BAX" trading symbol.

IIROC Rule

contract"	
"extendible debt security"	A *debt security* which allows a *Dealer Member* holder, during a fixed time period, to: (i) extend the security's maturity date to the extension maturity date, and (ii) in change the principal amount of the security by a fixed percentage (the *extension factor*) of the original principal amount.
"extension election period"	The period of time during which a *Dealer Member* holder may elect to: (i) extend the maturity date, and (ii) in change the principal amount, of an *extendible debt security*.
"extension factor"	The fixed percentage used to change the original principal amount of an *extendible debt security*, if any.
"floating rate debt obligation"	A *debt security* of either a government issuer that otherwise meets the requirements under subsection 5210(1) or a corporate issuer that otherwise meets the requirements under subsection 5220(1), with terms that provide for interest rate adjustments at least quarterly with reference to an interest rate set for a term of 90 days or less.
"low current credit rating"	For a Canadian issuer, a current credit rating of "B" or lower by DBRS; and for U.S. pay securities, a current credit rating of "B" or lower by Moody's or S &P Corporation.
"maturity band"	The range of years within which the *debt security* subject to margin matures.
"retractable debt security"	A *debt security* which allows the *Dealer Member* holder, during a fixed time period, to: (i) retract the security's maturity date to the retraction maturity date, and (ii) change the principal amount of the security by a fixed percentage (the *retraction factor*) of the original principal amount.
"retraction election period"	The period of time during which a holder may elect to: (i) retract the maturity date, and (ii) change the principal amount of a *retractable debt security*.
"retraction factor"	The fixed percentage used to change the original principal amount of a *retractable debt security*, if any.

"United States debt securities"	Bonds, debentures, treasury bills, notes and certain other non-commercial *debt securities* not in default that are issued or guaranteed by the government of the United States.

(4) For positions in and offsets involving equity and equity index securities and rights and warrants, the term:

"basic margin requirement"	A customized security specific margin rate for a security that is based on the security's traded price per share.
"Canada and United States listed equity securities eligible for margin"	Securities (other than bonds, debentures, rights and warrants) listed on any *acceptable exchange* or market tier in Canada or the United States with adequate minimum pre-tax profit, net tangible asset and working capital requirements, as determined by *IIROC.*
"Canada and United States unlisted equity securities eligible for margin"	Unlisted: (i) *equity securities* of insurance companies licensed to do business in Canada, (ii) *equity securities* of Canadian banks, (iii) *equity securities* of Canadian trust companies, (iv) senior *equity securities* of other Canadian and United States listed companies, (v) *equity securities* which qualify as legal for investment by Canadian life insurance companies, without recourse to the basket clause, and (vi) *equity securities* which have received conditional approval to list on an *acceptable exchange* in Canada within the last 90 days.
"control block"	A *person's* or combination of *persons'* holdings of an issuer's securities in sufficient number to materially affect control of that issuer. If a *person* or combination of *persons* holds over 20% of the outstanding voting securities of an issuer that *person* or combination of *persons* must, absent evidence to the contrary, be considered to materially affect control of that issuer.

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"floating rate preferred share"	A special or preferred share with terms that provide for dividend rates that fluctuate at least quarterly in tandem with a prescribed short term interest rate.
"foreign listed equity securities eligible for margin"	Securities (other than bonds, debentures, rights and warrants) listed on an *applicable exchange* outside of Canada and the United States that are constituent securities for the exchange's major broadly based *index*, and the *index* is on *IIROC's* List of foreign market indices whose constituent securities are eligible for margin.
"future payments"	The unpaid payments of the purchase price for an *underlying security* of an *installment receipt*.
"government guaranteed equity securities"	*Equity securities* where the payment of all dividends, redemption amounts, or other return of capital to holder is unconditionally guaranteed by Government of Canada or by a provincial government.
"installment receipt"	A security issued by or for an issuer or selling security holder that: (i) evidences partial payment for an *underlying security* of an installment receipt, and (ii) requires one or more subsequent payments by installment, to entitle the holder of the installment receipt to delivery of the *underlying security* of an installment receipt.

(5) For positions in underwriting *commitments* and positions traded on a when issued basis, the term:

"appropriate documentation"	With respect to the portion of the *commitment* where expressions of interest have been received from *exempt purchasers* means, at a minimum: (i) that the lead underwriter has a record of the final affirmed *exempt purchaser* allocation indicating for each expression of interest: (a) the name of the *exempt purchaser*, (b) the name of the employee of the *exempt purchaser* accepting the amount allocated, and (c) the name of the representative of the lead underwriter

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		responsible for affirming the amount allocated to the *exempt purchaser*, time stamped to indicate date and time of affirmation and, (ii) that the lead underwriter has notified in writing all the banking group participants when the entire allotment to *exempt purchasers* has been affirmed pursuant to clause (i) above so that all banking group participants may take advantage of the reduction in the margin requirement. Under no circumstances may the lead underwriter reduce its own margin requirement on a *commitment* due to such expressions of interest from *exempt purchasers* without providing notification to the rest of the banking group.	
	"commitment"	Pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities means, where all other non-pricing agreement terms have been agreed to, where two of the following three pricing terms have been agreed to: (i) issue price, (ii) number of shares, or (iii) commitment amount (issue price x number of shares).	
	"disaster out clause"	A provision in an underwriting agreement substantially in the following form: "The obligations of the Underwriter (or any of them) to purchase (the Securities) under this agreement may be terminated by the Underwriter (or any of them) at its option by written notice to that effect to the Company at any time prior to the Closing if there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which in the opinion of the Underwriter seriously adversely affects, or involves, or will seriously adversely affect, or involve, the financial markets or the business, operations or affairs of the Company and its subsidiaries taken as a whole."	
	"exempt purchaser"	An accredited investor that qualifies as an *institutional client*.	

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	"market out clause"	A provision in an underwriting agreement which permits an underwriter to terminate its obligation to purchase in the event of unsalability due to market conditions, substantially in the following form: "If, after the date hereof and prior to the Time of Closing, the state of financial markets in Canada or elsewhere where it is planned to market the Securities is such that, in the reasonable opinion of the Underwriters (or any of them), the Securities cannot be marketed profitably, any Underwriter shall be entitled, at its option, to terminate its obligations under this agreement by notice to that effect given to the Company at or prior to the Time of Closing."
	"new issue letter"	An underwriting loan facility in a form satisfactory to *IIROC*.
	"normal new issue margin"	(i) Where, in the case of an *equity security*, the *market value* is $2.00 per share or more and the *equity security* qualifies for inclusion on the List of Securities Eligible for Reduced Margin, 60% of *normal margin* for the period from the date of commitment to the *business day* prior to settlement date and 100% of *normal margin* from settlement date on, (ii) where, in the case of an *equity security*, the *market value* of the security is $2.00 per share or more and the security does not qualify for inclusion on the List of Securities Eligible for Reduced Margin, 80% of *normal margin* for the period from the date of commitment to the *business day* prior to settlement date and 100% of *normal margin* from settlement date on, or (iii) in all other instances, 100% of *normal margin*.
	"trading on a when issued basis"	Purchases or sales of a security to be issued under: (i) a prospectus offering if a receipt for a (final) prospectus for the security has been issued but the offering has not closed and settled, (ii) a proposed plan of arrangement, an amalgamation, or a take-over bid, prior to the date the security is issued under the amalgamation, arrangement or take-over bid, or (iii) any other transaction that is subject to the satisfaction of certain conditions, provided that the trading of the security on a when issued basis would not contravene *securities laws*.

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(6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

"capital share"	A share issued by a *split share company* that represents all or most of the capital appreciation part of an underlying common share.
"capital share conversion loss"	Any excess of the *market value* of a *capital share* position over its *retraction value.*
"combined conversion loss"	Any excess of the combined *market value* of positions in *capital shares* and *split share preferred shares* over their combined *retraction value.*
"conversion loss"	Any excess *market value* of a *convertible security* position over the *market value* of the *equivalent number* of *underlying securities*.
"convertible security"	A convertible security, exchangeable security or any other security that entitles the holder to acquire another security, the *underlying security*, upon exercising a conversion or exchange feature.
"currently convertible"	A security that is: (i) convertible within 20 *business days* into another security, the *underlying security*, or (ii) convertible after the expiry of a specific period into another security, the *underlying security*, and the *Dealer Member* or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until conversion.

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	"currently exercisable"	A security that is exercisable into the *underlying security*: (i) exercisable within 20 *business days* into another security, the *underlying security*, or (ii) exercisable after the expiry of a specific period into another security, the *underlying security*, and the *Dealer Member* or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until exercise.
	"exercisable security"	A warrant, right, *installment receipt*, or any other security entitling the holder to acquire the *underlying security* after making an exercise or subscription payment.
	"exercise loss"	Any excess of the sum of the *market value* of an *exercisable security* position and its exercise or subscription payment requirement over the *market value* of the *equivalent number* of *underlying securities*.
	"Newco securities"	Securities of a successor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
	"Oldco securities"	Securities of a predecessor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
	"retraction value"	A value assigned to *capital shares* or a combination of *capital shares* and *split share preferred shares*, and is calculated as follows: (i) for *capital shares*: (a) where the *capital shares* can be tendered to the *split share company* for retraction directly for the underlying common shares, at the option of the holder, the excess of the *market value* of the underlying common shares received over the retraction cash payment to be made when retraction of the *capital shares* takes place, (b) where the *capital shares* cannot be tendered to the *split share company* for retraction directly for the underlying common

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	shares at the option of the holder, the retraction cash payment to be received when retraction of the *capital shares* takes place, (ii) for *capital shares* and *split share preferred shares* in combination: (a) where the *capital shares* and *split share preferred shares* can be tendered to the *split share company* for retraction directly for the underlying common shares, at the option of the holder, the *market value* of the underlying common shares received, (b) where the *capital shares* and *split share preferred shares* cannot be tendered to the *split share company* for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the capital and *split share preferred shares* takes place.
"split share company"	A corporation formed for the sole purpose of acquiring underlying common shares and issuing its own: (i) *capital shares* based on all or most of the capital appreciation portion, and (ii) *split share preferred shares* based on all or most of the dividend income portion, of those underlying common shares.
"split share preferred share"	A share issued by a *split share company* that represents all or most of the dividend part of the underlying common share, and includes equity dividend shares of *split share companies*.

(7) For positions in and offsets involving swaps, the term:

"fixed interest rate"	An interest rate that is not reset at least every 90 days.
"floating interest rate"	An interest rate that is not a *fixed interest rate*.

"interest rate swap"	An agreement under which a *Dealer Member* is required to pay a fixed (floating) rate and entitled to receive a floating (fixed) rate amount calculated with reference to a notional amount.
"realization clause"	An optional clause within a *total performance swap* agreement which allows the *Dealer Member* to close out the swap agreement at the realization price (either the buy-in or sell-out price) of the security position involved in the offset.
"total performance swap"	An agreement under which a *Dealer Member* is required to pay and entitled to receive amounts calculated: (i) based on the performance of a specified *underlying security* or *underlying basket of securities*, and (ii) with reference to a notional amount.

(8) For positions in and offsets involving foreign exchange exposures, the term:

"foreign exchange position"	A *monetary asset or liability* including a: (i) currency spot position, (ii) futures and forward contract, (iii) swap, and (iv) any other transaction resulting in exposure to foreign exchange rate risk, that is denominated in a foreign currency.
"monetary asset or liability", "monetary asset", "monetary liability"	A *Dealer Member's* asset or liability: (i) in money and claims to money, (ii) denominated in foreign or domestic currency, and (iii) that is fixed by contract or otherwise.
"net long (short) foreign exchange position"	The net of *monetary assets* and liabilities as calculated on Form 1, Schedule 11.

"spot exchange rate"	The rate quoted by a recognized quote vendor for contracts with a *term to maturity* of one day.
"term to maturity"	For a *monetary asset or liability* means the amount of time from the present to the time when the claim to the *monetary asset* or the obligation to satisfy the *monetary liability* expires.

(9) For positions in and offsets involving *derivative* products, the term:

"aggregate current value"	For *index options*: *index* level x $1.00 x *unit of trading*
"aggregate exercise value"	For *options*: option *exercise price* x *unit of trading*
"at-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value of the *underlying interest* is equal to the *exercise price* for a *call option* or a *put option*.
"call option"	(i) An *exchange-traded option* that: (a) for equity, *index participation unit,* debt and currency *options,* gives a holder the right to buy and the writer the obligation to sell the *underlying interest* at a stated *exercise price* on or before the *option* expiration date, and (b) for *index options*, gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* rises above the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the *option* expiration date, (ii) an *over-the-counter option* that either:

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		(a) gives a holder the right to buy and the writer the obligation to sell the *underlying interest* at a stated *exercise price* on or before the option expiration date, or (b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the *underlying interest* rises above the *exercise price*, the difference between the aggregate *exercise price* and the current value of the *underlying interest* on or before the option expiration date.
	"clearing corporation"	The Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the *Board*.
	"cumulative relative weight percentage"	An overall relative weight percentage determined by calculating, in accordance with subsection 5360(5), the actual basket weighting for each security in a *qualifying basket of index securities* in relation to its latest published relative weighting in the *index*.
	"escrow receipt"	A document issued by a financial institution approved by a *clearing corporation* certifying that a security is held and will be delivered by that financial institution when a specified *option* is exercised.
	"exchange-traded option"	A call option or put option issued by the Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the *Board*.
	"exercise price"	(i) For equity, *index participation unit*, debt and currency *options*, the specified price per unit at which the *underlying interest* may be bought under a *call option*, or sold under a *put option*, and (ii) for *index options*, the specified price per unit that may be received by the holder and paid by the writer under a *call option* or a *put option*, on exercise of the *option.*
	"floating margin rate"	The floating margin rate set by *IIROC* in accordance with subsection 5360(3).

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	"incremental basket margin rate"	The incremental basket rate for a *qualifying basket of index securities* calculated in accordance with subsection 5360(6).	
	"index"	An equity index in which: (i) the basket of *equity securities* underlying the index consists of eight or more securities, (ii) the single largest security position by weighting comprises not more than 35% of the overall *market value* of the basket, (iii) the average market capitalization for each security position in the basket of *equity securities* underlying the index is at least $50 million, and (iv) the securities constituting the foreign equity index are listed and traded on an exchange that meets the criteria for an *applicable exchange*.	
	"index futures contract"	An exchange-traded *futures contract* with an *underlying interest* that is an *index*.	
	"index option"	An *exchange-traded option* with an *underlying interest* that is an *index*.	
	"index participation unit"	An interest in a trust or other entity that has assets consisting of equities or other securities underlying an *index*.	
	"index participation unit option"	An option with an *underlying interest* that is an *index participation unit*.	
	"in-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value, of the *underlying interest* is above the *exercise price* for a *call option*, and	

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		below the *exercise price* for a *put option*.	
	"out-of-the-money"	(i) For equity, *index participation unit*, debt and currency *options*, that the market price, and (ii) for *index options*, that the current value of the *underlying interest* is below the *exercise price* of a *call option*, and above the *exercise price* of a *put option.*	
	"over-the-counter option"	A *call option* or a *put option* other than an *exchange-traded option.*	
	"premium"	The aggregate price, excluding commissions and other fees, that the option buyer pays and the option writer receives for the rights under the option contract.	
	"put option"	(i) An *exchange-traded option* that: (a) for equity, *index participation unit,* debt and currency *options*, gives the holder the right to sell and the writer the obligation to buy the *underlying interest* at a stated *exercise price* on or before the *option* expiration date, and (b) for *index options*, gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* falls below the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the option expiration date, (ii) an *over-the-counter option* that either: (a) gives the holder the right to sell and the writer the obligation to buy the *underlying interest* at a stated *exercise price* on or before the option expiration date, or (b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the *index* falls below the *exercise price*, the difference between the aggregate *exercise price* and the *aggregate current value* of the *underlying interest* on or before the option expiration date.	

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	"qualifying basket of index securities"	A basket of *equity securities* with the characteristics in subsection 5360(4).
	"regular reset date"	The date after the last reset date if the maximum number of trading days in the *regular reset period* has passed.
	"regular reset period"	The normal period between margin rate resets. This period is determined by *IIROC* and is not longer than 60 trading days.
	"regulatory margin interval"	*IIROC's* regulatory margin calculation determined in accordance with subsection 5360(2).
	"time value"	An excess of the *market value* of an option over the *in-the-money* value of the option.
	"tracking error margin rate"	The last calculated *regulatory margin interval* for the tracking error resulting from a particular offset strategy.
	"unit of trading"	The number of units of the *underlying interest* that have been designated by an exchange as the minimum number or value to be the subject for a single option in a series of options. If there is no such designation, for a series of options the following rules apply: Underlying interest — Unit of trading (i) equity — 100 shares (ii) *index participation unit* — 100 units (iii) debt — 250 units (iv) *index* — 100 units

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	"violation"	Occurs if the maximum one or two day percentage change in the daily closing prices is greater than the margin rate.	

5131. - 5199. Reserved.

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RULE 5200

MARGIN REQUIREMENTS FOR DEBT SECURITIES AND MORTGAGES

5201. Introduction

(1) Rule 5200 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:

(i) government *debt securities* not in default [sections 5210 through 5214],

(ii) commercial and corporate *debt securities* not in default [sections 5220 through 5226], and

(iii) *debt securities* in default [section 5230].

(2) Rule 5200 also describes the circumstances under which the debt margin surcharge applies, and details the calculation thereof [sections 5240 and 5241].

(3) Rule 5200 also sets out specific *Dealer Member inventory margin* and *client account margin* requirements for mortgages [section 5250].

(4) The margin requirements for *debt securities* subject to redemption call or offer are set out in Rule 5400.

(5) The *Dealer Member inventory margin* requirements for *debt security* underwriting commitments are set out in Rule 5500.

5202. - 5209. Reserved.

GOVERNMENT DEBT SECURITIES

5210. Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default are as follows:

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Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	**Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development**	**Category (iii) Canadian and United Kingdom municipal corporations**
Less than 1 year	1.00% x number of days to maturity / 365	2.00% x number of days to maturity / 365	3.00% x number of days to maturity / 365
Greater than or equal to 1 year and less than 3 years	1.00%	3.00%	5.00%
Greater than or equal to 3 years and less than 7 years	2.00%	4.00%	
Greater than or equal to 7 years and less than 11 years	4.00%	5.00%	
Greater than or equal to 11 years			

(2) In subsection 5210(1) category (i), a country with a "high current credit rating" is a country that is currently rated Aaa by Moody's or AAA by S&P Corporation.

(3) In subsection 5210(1) category (ii), British Columbia government guaranteed parity bonds, the margin requirement for a long position must be at least 0.25% of the par value of the bonds.

(4) If a security in subsection 5210(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.

5211. Government residual debt and stripped coupons not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for the Government residual debt and stripped coupons not in default are as follows:

IIROC Rule

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	**Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development**	**Category (iii) Canadian and United Kingdom municipal corporations**
Less than 1 year	1.50% x number of days to maturity / 365	3.00% x number of days to maturity / 365	4.50% x number of days to maturity / 365
Greater than or equal to 1 year and less than 3 years	1.50%	4.50%	7.50%
Greater than or equal to 3 years and less than 7 years	3.00%	6.00%	
Greater than or equal to 7 years and less than 11 years	6.00%	7.50%	
Greater than or equal to 11 years and less than 20 years			
Greater than or equal to 20 years	12.00%	15.00%	15.00%

(2) In subsection 5211(1) category (i), a country with a "high current credit rating" is a country that is currently rated Aaa by Moody's or AAA by S&P Corporation.

(3) In subsection 5211(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

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5212. Government floating rate debt obligations

(1) The minimum margin required for government *floating rate debt obligations* held in *Dealer Member* inventory and client accounts is the sum of:

(i) 50% of the margin otherwise applicable to the par value of the *debt security*, and

(ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

5213. Government mortgage-backed securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for government mortgage-backed securities are as follows:

Security type	Minimum margin requirement expressed as a percentage of market value
Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5210(1) as a government debt issuer, 1.25 times the applicable rate set out in subsection 5210(1), or (ii) under subsection 5214(1) as another non-commercial debt issuer, 1.25 times the applicable rate set out in subsection 5214(1).

5214. Other non-commercial issuers not qualifying under sections 5210 through 5212

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities of all other non-commercial issuers not qualifying under sections 5210 through 5212 are as follows:

	Minimum margin required as a percentage of market value	
Term to maturity or redemption	Category (i) All other non-commercial issuers' bonds and debentures not qualifying under sections 5210 through 5212	Category (ii) All other non-commercial issuers' residual debt and stripped coupons not qualifying under sections 5210 through 5212
Less than 1 year	10.00%	15.00%

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Greater than or equal to 1 year and less than 3 years			
Greater than or equal to 3 years and less than 7 years			
Greater than or equal to 7 years and less than 11 years			
Greater than or equal to 11 years and less than 20 years			
Greater than or equal to 20 years		30.00%	

(2) If a security in subsection 5214(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.

(3) In subsection 5214(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5215. - 5219. Reserved.

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CORPORATE DEBT SECURITIES

5220. Commercial and corporate bonds, debentures, notes and other securities not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for commercial and corporate bonds, debentures, notes and other securities not in default are as follows:

	Minimum margin required as a percentage of market value	
Term to maturity	**Category (i)** **Commercial and corporate bonds, debentures and notes and non-negotiable and non-transferable trust and mortgage loan company obligations registered in the Dealer Member's name; and acceptable commercial, corporate and finance company notes and readily negotiable and transferable trust and mortgage loan company obligations.**	**Category (ii)** **Canadian and foreign category (i) issues and obligations with a market value of 50% or less of par value and with a low current credit rating**
Within 1 year	3.00% x number of days to maturity / 365	50.00%
Over 1 to 3 years	6.00%	
Over 3 to 7 years	7.00%	
Over 7 to 11 years	10.00%	
Over 11 years		

(2) In subsection 5220(1) category (i), *acceptable commercial, corporate and finance company notes* means notes issued by a company that comply with the following requirements:

(i) In the case of a note of a Canadian incorporated issuer:

(a) the issuer must have a net worth of at least $10,000,000,

(b) the note must be guaranteed by another company with a net worth of at least $10,000,000, or

(c) the issuer must have a binding agreement with another company with net worth of at least $25,000,000 to pay the issuer or a

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noteholders' trustee any note indebtedness outstanding.

(ii) In the case of a note of a foreign incorporated issuer:

(a) the issuer must have a net worth of at least $25,000,000, or

(b) the note must be guaranteed by a foreign incorporated company with a net worth of at least $25,000,000.

5221. Convertible commercial and corporate bonds, debentures, notes and other securities not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial and corporate bonds, debentures, and notes not in default, and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the *Dealer Member's* name are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount		
	Category (i) Margin required when market value is above par value	**Category (ii) Margin required when market value is at or below par value**	**Category (iii) Margin required when market value is 50% or less of par value and issuer has a low current credit rating**
Basic margin requirement			
Within 1 year	3.00% x number of days to maturity / 365 multiplied by par value plus any excess of convertible debt *market value* over convertible debt par value.	3.00% x number of days to maturity / 365 multiplied by par value	50.00% of *market value*
Over 1 to 3 years	6.00% of par value plus any excess of convertible debt *market value* over	6.00% of *market value*	

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	convertible debt par value.		
Over 3 to 7 years	7.00% of par value plus any excess of convertible debt *market value* over convertible debt par value.	7.00% of *market value*	
Over 7 to 11 years	10.00% of par value plus any excess of convertible debt *market value* over convertible debt par value.	10.00% of *market value*	
Over 11 years			
Alternative margin requirement			
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) through (iii) as the sum of the margin required for the *underlying security* plus any excess of the convertible debt *market value* over the *underlying security market value*.			

5222. Bank paper not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for bank paper not in default are as follows:

	Minimum margin required as a percentage of market value		
Term to maturity	**Category (i)** **Bank acceptances, deposit certificates, promissory notes and debentures issued by a Canadian chartered bank**	**Category (ii)** **Bank acceptances, deposit certificates, promissory notes issued by a foreign bank with a net worth (capital + reserves) of not less than $200 million**	**Category (iii)** **Canadian and foreign category (i) and (ii) issues and obligations with a market value of 50% or less of par value and with a low current credit rating**
Within 1 year	2.00% x number of days to maturity 365		50.00%
Over 1 to 3 years	6.00%		
Over 3 to 7 years	7.00%		

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Over 7 to 11 years	10.00%	
Over 11 years		

5223. Commercial residual debt and stripped coupons not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for commercial residual debt and stripped coupons not in default are as follows:

	Minimum margin required expressed as a percentage of market value	
Term to maturity	**Category (i) Commercial residual debt and stripped coupons**	**Category (ii) Commercial residual debt and stripped coupons where the underlying security has a market value of 50% or less of par value and has a low current credit rating**
Within 1 year	4.50% x number of days to maturity / 365	50.00%
Over 1 to 3 years	9.00%	
Over 3 to 7 years	10.50%	
Over 7 to 11 years	15.00%	
Over 11 to 20 years		
Over 20 years	30.00%	

(2) In subsection 5223(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5224. Convertible commercial residual debt not in default

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial residual debt not in default are as follows:

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Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount	
	Category (i) **Margin required for commercial convertible residual debt**	**Category (ii)** **Margin required for commercial convertible residual debt where the underlying security has a market value of 50% or less of par value and has a low current credit rating**
Basic margin requirement		
Within 1 year	The greater of margin calculated for *underlying security* under subsection 5221(1); and margin calculated for residual debt instrument under subsection 5223(1).	50.00%
Over 1 to 3 years		
Over 3 to 7 years		
Over 7 to 11 years		
Over 11 to 20 years		
Over 20 years		
Alternative margin requirement		
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) and (ii) as the sum of the margin required for the *underlying security* plus any excess of the convertible debt *market value* over the *underlying security market value*.		

5225. Commercial and corporate floating rate debt obligations not in default

(1) The minimum margin required for commercial and corporate *floating rate debt obligations* not in default held in *Dealer Member* inventory and client accounts is the sum of:

(i) 50% of the margin otherwise applicable to the par value of the *debt security*, and

(ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

5226. Commercial and corporate income bonds not in default

(1) The minimum *Dealer Member inventory margin* and *client margin* requirements for income bonds not in default are as follows:

Minimum margin required expressed as a percentage of market value	
Category (i) **Income bonds currently and for the past two years paying interest at the full stated rate**	**Category (ii)** **All other income bonds**
10.00%	50.00%

(2) To qualify under subsection 5226(1), the trust indenture must specify:

(i) an interest rate, and

(ii) that interest must be paid if earned.

5227. Commercial and corporate mortgage-backed securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for mortgage-backed securities are as follows:

Security type	Minimum margin required expressed as a percentage of market value
Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5220(1) as commercial and corporate debt issuer, 1.25 times the applicable rate set out in subsection 5220(1), or (ii) under subsection 5222(1) as a bank paper issuer, 1.25 times the applicable rate set out in subsection 5222(1).

5228. - 5229. Reserved.

DEBT SECURITIES IN DEFAULT

5230. Debt securities in default

(1) The minimum margin required for debt in default is 50% of *market value*.

5231. - 5239. Reserved.

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DEBT MARGIN SURCHARGE

5240. Circumstances under which debt margin surcharge is imposed

(1) Higher margin requirements for *debt securities*, by way of a margin surcharge, may be established by *IIROC* in response to market conditions.

(2) *IIROC* monitors the price volatility of *debt securities* that *Dealer Members* trade, determines when a margin surcharge is required, and when it is no longer required.

(3) The margin surcharge required under this section 5240 is:

(i) 50% of the margin required in sections 5210 through 5226, and

(ii) required for at least 30 days.

(4) A *Dealer Member* will be notified by *IIROC* of the imposition or revocation of a margin surcharge promptly following *IIROC* determining that the margin surcharge is, or is no longer, required. The notice is effective, and a *Dealer Member* must be in compliance with it, not less than five days after it is given.

5241. Determining debt margin surcharge

(1) *IIROC* determines the debt margin surcharge according to the calculations in section 5241.

(2) *IIROC* monitors government of Canada - issued *debt securities* maturing in each of the three periods:

(i) over 1 year to 3 years,

(ii) over 3 years to 7 years, and

(iii) over 7 years,

for price volatility in the primary markets in which a *Dealer Member* trades them. Each maturity is considered a separate class of *debt securities*.

(3) *IIROC* measures price volatility as follows:

(i) start with the closing price on a trading day for a security in monitored markets (the base day),

(ii) compare the closing price of a security on each of the four trading days after the base day to the closing price in clause 5241(3)(i),

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(iii) the first day (if any) of the four days in clause 5241(3)(ii) on which the percentage change in price (negative or positive) between the closing price on that day and the closing price in clause (i) is greater than the margin rate required in Rule 5200, is an "offside base day",

(iv) if an offside base day has occurred, it becomes the base day for making further comparisons under clauses 5241(3)(i) and 5241(3)(ii),

(v) if an offside base day does not occur in the four trading days following the base day, then the trading day after the base day becomes the new base day, and the calculations under clauses 5241(3)(ii) through 5241(3)(iv) are made with reference to that new base day,

(vi) for any 90 day period, *IIROC* must determine *p%* as follows:

$$\frac{\text{\# of offside base days} \times 100}{\text{total \# trading days in the period}} = p\%$$

(vii) If *p*% is greater than 5% for any two of the three classes of *debt securities* monitored, a margin surcharge will be required.

(4) After a margin surcharge has been required for at least 30 days under subsection 5240(3), *IIROC* will look at the number of offside base days. If the number of offside base days is not more than 5% of the total number of trading days in the immediately preceding 90 day period, the margin surcharge will no longer be required.

5242. - 5249. Reserved.

IIROC Rule

MORTGAGES

5250. Mortgages

(1) The minimum *Dealer Member inventory margin* requirements for mortgages are as follows:

Mortgage type	Minimum margin requirement expressed as a percentage of market value
National Housing Act insured mortgage	6%
Conventional first mortgage	12% or the rate set by the *chartered banks*, whichever is greater

(2) Client account positions in mortgages may not be carried on margin.

5251. - 5299. Reserved.

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RULE 5300

MARGIN REQUIREMENTS FOR EQUITY SECURITIES AND INDEX PRODUCTS

5301. Introduction

(1) Rule 5300 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:

(i) *equity securities* [sections 5310 through 5315],

(ii) *installment receipts* [section 5320],

(iii) convertible and exchangeable equities [section 5330],

(iv) *control blocks* [sections 5340],

(v) rights and warrants [section 5350],

(vi) index products [section 5360], and

(vii) securities held in a *Trader's* account [section 5370].

(2) The margin requirements for *equity securities* subject to redemption call or offer are set out in Rule 5400.

(3) The *Dealer Member inventory margin* requirements for *equity security* underwriting *commitments* are set out in Rule 5500.

(4) The margin requirements for when issued trading are set out in Rule 5500.

5302. - 5309. Reserved.

IIROC Rule

EQUITY SECURITIES

5310. Determining the basic margin requirement

(1) Where a security is eligible to be margined using the *basic margin requirement* approach, the minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) are as follows:

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
Long positions:	
Market value of $2.00 or more per share and qualifying for inclusion on the List of Securities Eligible for Reduced Margin published by *IIROC*	25% for *Dealer Member* positions; 30% for client account positions
All other positions with a *market value* of $2.00 or more per share	50%
Market value of $1.75 per share to $1.99 per share	60%
Market value of $1.50 per share to $1.74 per share	80%
Market value of below $1.50 per share	100%
Short positions:	
Market value of $2.00 or more per share and qualifying for inclusion on the List of Securities Eligible for Reduced Margin published by *IIROC*	25% for *Dealer Member* positions; 30% for client account positions
All other positions with a *market value* of $2.00 or more per share	50%
Market value of $1.75 per share to $1.99 per share	60%
Market value of $1.50 per share to $1.74 per share	80%
Market value of $0.25 per share to $1.49 per share	100%
Market value of below $0.25 per share	$0.25 per share

5311. Canada and United States equity securities eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *Canada and United States listed equity securities eligible for margin* are the basic margin requirements in section 5310.

(2) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *Canada and United States*

unlisted equity securities eligible for margin are the basic margin requirements in section 5310.

5312. Foreign listed equity securities eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rate for *foreign listed equity securities eligible for margin* is 50%.

5313. Government guaranteed equity securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* rate for *government guaranteed equity securities* is 25%.

5314. Floating rate preferred shares

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for *floating rate preferred shares* are as follows:

Default status and conversion features	Minimum margin required
Not in default of any dividend payment	
Floating rate preferred shares of issuer	50% of margin rate for related common share of issuer x *market value* of preferred shares
Floating rate preferred shares with a *market value* at or below par value and convertible into other securities of issuer	50% of margin rate for related common share of issuer x *market value* of preferred shares
Floating rate preferred shares with a *market value* above par value and convertible into other securities of issuer	The lesser of: (i) (a) 50% of margin rate for related common share of issuer x preferred share par value, + (b) preferred share *market value* - preferred share par value, and (ii) (a) the margin required under Rule 5200, 5300 or 5400 for the *underlying security*, + (b) the *market value* of the preferred shares - the *market value* of the *underlying security*
In default of one or more dividend payments	
All *floating rate preferred shares* in default whether convertible or not	50% of margin rate for related common share of issuer x *market value* of preferred shares

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5315. Other equity securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *equity securities* not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1) are as follows:

	Minimum margin required as a percentage of market value or as a dollar amount per share
Market value per share	**Category (i)** **Equity securities not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1)**
Long positions:	
All *market value* per share levels	100%
Short positions:	
Market value of $0.50 per share and above	100%
Market value of below $0.50 per share	$0.50 per share

5316. - 5319. Reserved.

INSTALLMENT RECEIPTS

5320. Installment receipts

(1) A *Dealer Member* must calculate *Dealer Member inventory margin* and *client account margin* for *installment receipt* long positions according to the following:

Account where position is held	**Minimum margin required**
Held in *Dealer Member* inventory account	100% of margin required for *underlying security* plus any excess of the future installment payments over the *market value* of the *underlying security*
Held in client account	The lesser of 100% of margin required for *underlying security* and the *market value* of the *installment receipt*

(2) A *Dealer Member* may purchase and hold an *installment receipt* for its own account as beneficial owner.

(3) A *Dealer Member* may hold an *installment receipt* for a client registered in the *Dealer Member's* or its nominee name.

(4) A *Dealer Member* must not purchase or hold an *installment receipt* that requires it or its nominee to make payment under the *installment*

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receipt.

(5) Subsection 5320(4) does not apply:

(i) to a *Dealer Member's* payments for its own account as beneficial owner of the *installment receipt*, or

(ii) if the agreement creating and issuing the *installment receipts* releases the *Dealer Member* or its nominee from the requirement to make the payments in subsection 5320(4) either by:

(a) transferring the *installment receipt* to another *person* if an installment is not paid in full when due, or

(b) another mechanism approved by *IIROC*.

(iii) The transfer in sub-clause 5320(5)(ii)(a) must be able to occur at any time before:

(a) the close of business (Toronto time) on the second *business day* after default in payment of an installment, and

(b) the issuer's or selling security holder's rights arising from non-payment of the installment can be enforced.

(6) If an installment on an *installment receipt* held for a client in subsection 5320(4) has not been paid in full when due, the *Dealer Member* must promptly take steps necessary to be released from any requirements to pay the installment or any *future payments*. The *Dealer Member* must take steps within the time permitted by the agreement creating and issuing the *installment receipts*. If appropriate or necessary, the *Dealer Member* must transfer the *installment receipt* to another *person*.

5321. - 5329. Reserved.

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CONVERTIBLE AND EXCHANGEABLE EQUITIES

5330. Convertible and exchangeable equities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements calculated for convertible and exchangeable *equity securities* may be limited to an overall maximum margin requirement calculated as follows:

Minimum margin required
Category (i) **Equity security currently convertible into or exchangeable for another security**
The sum of : (a) the margin required under Rule 5300 for the *underlying security*, plus (b) any excess of the *market value* of the convertible or exchangeable *equity security* over the *market value* of the *underlying security*.

5331. - 5339. Reserved.

CONTROL BLOCKS

5340. Control blocks

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates for *control blocks* are 100% unless the position is part of an underwriting *commitment* that is subject to the requirements of Rule 5500.

5341. - 5349. Reserved.

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RIGHTS AND WARRANTS

5350. Canada and United States rights and warrants eligible for margin

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for unlisted warrants issued by a *chartered bank* and Canada and United States listed rights and warrants are as follows:

Minimum margin required	
Category (i) **Unlisted warrants issued by a Canadian chartered bank entitling the holder to buy securities issued by the Government of Canada or a Canadian province**	**Category (ii)** **Canada and United States listed rights and warrants**
The lesser of: (a) 100% of the *market value* of the warrant, and (b) the margin required for warrant's *underlying security*.	

5351. - 5359. Reserved.

INDEX PRODUCTS

5360. Index participation units and qualifying baskets of index securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for *index participation units* and *qualifying baskets of index securities* are as follows:

Minimum margin required	
Category (i) **Index participation units**	**Category (ii)** **Qualifying basket of index securities**
(a) The *floating margin rate* percentage (calculated for *index participation unit* based on its *regulatory margin interval*), multiplied by (b) The *market value* of *index participation units*.	(a) The sum of: (i) The *floating margin rate* percentage (calculated for a perfect basket of index securities based on its *regulatory margin interval*), and (ii) The calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by (b) The *market value* of *qualifying basket of index securities*.

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(2) *IIROC* calculates a *regulatory margin interval* according to the following formula:

Maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90, 260 trading days rounded up to the next ¼%.	x	3 (for a 99% confidence interval)	x	Square root of 2 (for 2 days price risk coverage)

(3) To calculate the *floating margin rate* for an *index participation unit* or a perfect basket of index securities:

(i) *IIROC* uses the last calculated *regulatory margin interval*, which is effective for the *regular reset period* unless a *violation* occurs,

(ii) in normal circumstances, the *floating margin rate* is reset on the *regular reset date* to the *regulatory margin interval* calculated as at the *regular reset date*,

(iii) if a *violation* occurs, the *floating margin rate* is reset on the date the *violation* occurs to the *regulatory margin interval* determined as at the date of the *violation*, and

(iv) the *regulatory margin interval* determined in clause 5360(3)(iii) must be effective for a minimum of 20 trading days and reset at the close of the 20th trading day to the *regulatory margin interval* determined as at that date if a reset results in a lower margin rate.

(4) A basket of *equity securities* is a *qualifying basket of index securities* if:

(i) all of the securities in the basket are included in the composition of the same *index*,

(ii) the basket comprises a portfolio with a *market value* equal to the *market value* of the *underlying securities* in the *index*,

(iii) the *market value* of each *equity security* comprising the portfolio proportionally equals or exceeds the *market value* of its relative weight in the *index*, based on the latest published relative weights of securities comprising the *index*, and

(iv) the required *cumulative relative weight percentage* of all *equity securities* comprising the portfolio:

(a) equals 100% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of less than 20 securities,

(b) equals or exceeds 90% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 20 or more securities but less than 100 securities, and

(c) equals or exceeds 80% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 100 or more securities,

based on the latest published relative weightings of the *equity securities* comprising the *index*.

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(v) If the cumulative relative weighting of all *equity securities* in the basket equals or exceeds the required *cumulative relative weight percentage* and is less than 100% of the cumulative weighting of the corresponding *index*, the deficiency in the basket must be filled by other *equity securities* included in the composition of the *index*.

(5) The *cumulative relative weight percentage* is determined:

(i) by calculating for each security in a *qualifying basket of index securities*:

(a) its actual basket weighting, and

(b) its latest published relative weighting in the *index*,

and then,

(ii) by summing the lesser of the two weighting percentages calculated for each security in sub-clauses 5360(5)(i)(a) and 5360(5)(i)(b) for all of the securities in the *qualifying basket of index securities*.

(6) The *incremental basket margin rate* for a *qualifying basket of index securities* is calculated as the sum:

Market value of each underweighted security in basket	x	Margin rate for that security	x	The % by which the security is underweighted (calculated according to the formula: published relative weighting of the security - actual basket weighting of the security)

for each underweighted security in the basket.

5361. - 5369. Reserved.

5370. Securities held in a Trader's account

(1) The minimum *Dealer Member inventory margin* for a security position held in a *Trader's* account is 25% of the *market value* of such security provided:

(i) the *Trader* has responsibility or has "on post" trading privileges for the security,

(ii) the security is eligible for margin pursuant to section 5311,

(iii) the security does not qualify for a 25% margin rate pursuant to section 5311, and

(iv) the security has traded at a value of at or above $2.00 per share for the previous calendar quarter.

(2) The reduced margin available under subsection 5370(1) may be applied to a maximum total security *market value* in all *Trader's* accounts

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	of: (i) $100,000, if 90,000 shares of more of the security were traded in the previous calendar quarter, and (ii) $50,000, if less than 90,000 shares of the security were traded in the previous calendar quarter. The minimum *Dealer Member inventory margin* on security position amounts over $100,000 and $50,000, respectively, shall be the minimum margin otherwise required pursuant to section 5311.
	(3) The reduced margin available for all security positions under subsection 5370(1) shall not exceed 50% of the *Dealer Member's* net allowable assets.
5371. - 5399. Reserved.	

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RULE 5400

MARGIN REQUIREMENTS FOR OTHER INVESTMENT PRODUCTS

5401. Introduction

(1) Rule 5400 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for investment products not covered in Rules 5200 or 5300. The order of subjects in Rule 5400 is:

(i) securities subject to redemption call or offer [section 5410],

(ii) units [section 5420],

(iii) precious metal certificates and bullion [section 5430],

(iv) swap contracts [sections 5440 through 5442],

(v) mutual fund positions [section 5450], and

(vi) foreign exchange positions [sections 5460 through 5469].

5402. - 5409. Reserved.

SECURITIES SUBJECT TO REDEMPTION CALL OR OFFER

5410. Securities subject to redemption call or offer

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities subject to redemption call or offer are as follows:

Conditions	Minimum margin required	
	Category (i) **Securities called for cash redemption according to their terms and conditions**	**Category (ii)** **Securities subject to a binding cash offer, for which all conditions have been met**
Cash offer for all the issued and outstanding class of securities	No margin required provided the *market value* of the position is no greater than the amount of the cash offer	
Cash offer for a fraction of the issued and outstanding class of securities	For fraction subject to cash offer, no margin required provided the *market value* of the fractional position is no greater than the amount of the cash offer.	

	For remainder of the position, *normal margin* (as determined elsewhere in Rules 5200 through 5900) would apply.

5411. - 5419. Reserved.

UNITS

5420. Units

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirement for units is the sum of the margin required for each of the unit components.

5421. - 5429. Reserved.

PRECIOUS METAL CERTIFICATES AND BULLION

5430. Precious metal certificates and bullion

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for precious metal certificates and bullion are as follows:

Precious metal investment type	Minimum margin required expressed as a percentage of market value
Negotiable certificates issued by *chartered banks* and trust companies authorized to do business in Canada, evidencing an interest in one of gold, platinum or silver	20%
Gold or silver bullion purchased by a *Dealer Member* for inventory or on behalf of a client, from the Royal Canadian Mint or a *chartered bank* that is a market making member, ordinary member or associate member of the London Bullion Market Association	20%

(2) The *Dealer Member* must have a written representation from bullion vendor stating that the bullion are London Bullion Market Association good delivery bars for the bullion to be margin eligible under subsection 5430(1).

5431. - 5439. Reserved.

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INTEREST RATE AND TOTAL PERFORMANCE SWAPS

5440. Interest rate swaps

(1) For *interest rate swaps* where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:

(i) where a component is a payment calculated according to a *fixed interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the outstanding term of the swap, multiplied by 125% and in turn multiplied by the notional amount of the swap, and

(ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

5441. Total performance swaps

(1) For *total performance swaps*, where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:

(i) where a component is a payment calculated based on the performance of a stipulated *underlying security* or *underlying basket of securities*, with reference to a notional amount, the margin requirement is the *normal margin required* for the *underlying security* or *underlying basket of securities* relating to this component, based on the *market value* of the *underlying security* or *underlying basket of securities*, and

(ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

5442. Swap counterparty margin requirements

(1) The counterparty to the swap agreement is considered the *Dealer Member's* client and the minimum margin the *Dealer Member* shall obtain from the swap client is as follows:

(i) where the swap client is an *acceptable institution*, no margin, or

(ii) where the swap client is an *acceptable counterparty* or *regulated entity*, any *market value* deficiency calculated relating to the swap agreement, or

(iii) where the counterparty is an other counterparty, any *loan value* deficiency calculated relating to the swap agreement determined by using the same approach as set out in sections 5440 and 5441 for *Dealer Member* swap positions.

5443. - 5449. Reserved.

MUTUAL FUNDS

5450. Margin requirements for mutual fund positions

(1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for securities of mutual funds qualified by prospectus for sale in any province of Canada are:

(i) for money market mutual funds (as defined in National Instrument 81-102), 5% of the *market value* of the fund, and

(ii) for all other mutual funds, the margin rate determined in subsection 5310(1) (using the per unit *market value* of the mutual fund) multiplied by the *market value* of the fund.

5451. - 5459. Reserved.

FOREIGN EXCHANGE POSITIONS

5460. General margin requirements for foreign exchange positions

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for a particular *foreign exchange position* are the aggregate of the spot risk margin requirement and term risk margin requirement, calculated using one of the following groups of spot risk margin rates and term risk margin rates for the relevant foreign currency:

	Spot risk and term risk margin required as a percentage of market value of the foreign exchange position			
	Currency Group			
	1	2	3	4
Spot risk margin rate	greater of: (i) 1.00% and	greater of: (i) 3.00% and	greater of: (i) 10.00% and	25.00%

	(ii) spot risk surcharge rate	(ii) spot risk surcharge rate	(ii) spot risk surcharge rate	
Term risk margin rate	lesser of: (i) 1.00% x *foreign exchange position term to maturity*, and (ii) 4.00%	lesser of: (i) 3.00% x *foreign exchange position term to maturity*, and (ii) 7.00%	lesser of: (i) 5.00% x *foreign exchange position term to maturity*, and (ii) 10.00%	lesser of: (i) 12.50% x *foreign exchange position term to maturity*, and (ii) 25.00%

(2) The foreign exchange currency group that a particular country currency qualifies for is determined based on the currency group criteria set out in subsection 5461(1).

(3) The spot risk margin surcharge rate that may be in effect from time to time for a particular country currency is determined using the approach set out in subsection 5462(2).

(4) *Dealer Members* are permitted at their option to margin certain inventory positions in accordance with section 5467 instead of the other applicable provisions within sections 5461 through 5466.

(5) References to conversion to Canadian dollars at the *spot exchange rate* are to the rate quoted by a recognized quote vendor for contracts with a *term to maturity* of one day.

(6) *Monetary assets and liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.

(7) Inventory long or short currency *futures contracts* listed on an *applicable exchange* which are included in the unhedged foreign exchange calculations hereunder are not required to be margined pursuant to section 5790.

(8) *Dealer Members* are permitted at their option to exclude non-allowable *monetary assets* from *monetary assets* for the purpose of calculating the margin requirement within sections 5461 through 5467.

(9) The *foreign exchange position term to maturity* is the term to maturity of a particular *foreign exchange position* expressed in years.

5461. Foreign exchange currency group criteria and monitoring

(1) **Criteria -** The qualitative and quantitative criteria for initial qualification within each currency group are as follows:

(i) A Group 1 currency must:

(a) have a spot price volatility level of less than or equal to 1.00%, and

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(b) be a primary intervention currency of the Canadian dollar.

(ii) A Group 2 currency must:

(a) have a spot price volatility level of less than or equal to 3.00%,

(b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and

(c) have either:

(I) a daily quoted spot rate by either:

(A) a member of the Economic and Monetary Union, or

(B) a participant in the Exchange Rate Mechanism II,

or

(II) a listed currency *futures contract* on an *applicable exchange*.

(iii) A Group 3 currency must:

(a) have a spot price volatility level of less than or equal to 10.00%,

(b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and

(c) be of a member country of the International Monetary Fund with Article VIII status, and no capital payment restrictions as they relate to security transactions.

(iv) A Group 4 currency has no initial or ongoing qualification criteria.

(2) **Monitoring currency adherence to group qualitative criteria -**

On at least an annual basis, *IIROC* shall assess the adherence of each currency in a group to the qualitative criteria of the particular currency group to determine whether the currency continues to satisfy the qualitative criteria of the currency group.

(3) **Currency group upgrades and downgrades -** Where *IIROC* determines that a particular currency:

(i) should be upgraded, because it now satisfies the criteria set out in subsection 5461(1) for a currency group other than its current currency group, or

(ii) should be downgraded, because it no longer satisfies its current currency group criteria as set out in subsection 5461(1),

IIROC shall recommend for approval its proposed upgrade or downgrade to the IIROC Financial and Operations Advisory Section. Upon IIROC Financial and Operations Advisory Section approval, *IIROC* shall notify *Dealer Members* of the upgrade or downgrade.

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5462. Spot risk margin rate

(1) **Minimum rates** - The minimum spot risk margin rates for each Currency Group are as follows:

	Minimum spot risk margin required as a percentage of market value of the foreign exchange position			
	Currency Group			
	1	2	3	4
Minimum spot risk margin rate	1.00%	3.00%	10.00%	25.00%

(2) **Spot price volatility levels** - To monitor the volatility of each Group 1, 2 or 3 currency, the Canadian dollar equivalent closing price on each of the four trading days succeeding the "base day" is compared to the base day closing price. The first of four succeeding trading days on which the percentage change in price (negative or positive) between the closing price on the succeeding day and the closing price on the base day is greater than the spot risk margin rate prescribed for the particular currency in subsection 5460(1) is designated an "offside base day". If an offside base day has been designated, the offside base day is designated the base day for the purpose of making further base day closing price comparisons.

If the number of offside base days during any 60 trading day period is greater than three, the currency is deemed to have exceeded the volatility threshold of the currency group.

If the volatility of a Group 1, 2 or 3 currency exceeds the volatility threshold, the individual currency spot risk margin rate is increased by increments of 10% until the application of the increased margin rate would result in no more than two offside days during the preceding 60 trading days. The increased margin rate shall apply for a minimum of 30 trading days and is automatically decreased to the margin rate otherwise applicable when after such 30 trading day period the volatility of the currency is less than the volatility threshold.

IIROC is responsible for determining the required increase or decrease in foreign exchange spot risk margin rates under this subsection 5462(2).

5463. Spot risk margin requirement

(1) The spot risk margin requirement applies to all *monetary assets and liabilities*, regardless of *term to maturity*, and must be calculated as:

net long (short) foreign exchange position x spot risk margin rate

(2) The spot risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

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5464. Term risk margin requirement

(1) The term risk margin requirement applies to all *monetary assets or liabilities* with a *term to maturity* of over two *business days* and must be calculated for each individual asset and liability as:

foreign exchange position x term risk margin rate for the position

(2) The term risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

5465. Maximum security margin requirement

(1) The sum of:

(i) the spot risk margin requirement,

(ii) the term risk margin requirement, and

(iii) the security margin requirement as determined elsewhere in these Rules,

must not exceed 100% of the *market value* of the security.

5466. Foreign exchange position offsets for Dealer Members

(1) A *Dealer Member* must calculate *Dealer Member inventory margin* and *client margin* for *foreign exchange positions* according to the currency groups and rates in subsection 5460(1).

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(2) If a *Dealer Member* has a *monetary asset* and *monetary liability* in the same currency, the term risk margin requirement may be netted according to the following table:

Dealer Member position	**Term risk margin requirement**
(i) *Monetary asset* and *monetary liability*, both with a *term to maturity* of 2 years or less	Term risk margin requirement for both positions may be netted
(ii) *Monetary asset* and *monetary liability*, both with a *term to maturity* of over 2 years	Term risk margin requirement for both positions is the greater of term risk margin requirement for the *monetary asset* and the *monetary liability*.
(iii) *Monetary asset* (*monetary liability*) with a *term to maturity* of 2 years or less and *monetary liability* (*monetary asset*) with a *term to maturity* of over 2 years where difference in the terms to maturity is 180 days or less.	Term risk margin requirement for both positions may be netted

(3) If a *Dealer Member* has a *monetary asset* and a *monetary liability* in the same currency group and one of the positions has a *term to maturity* of 2 years or less and the other has a *term to maturity* of more than 2 years, the term risk margin requirement for the two positions need not be greater than the following:

Currency Group			
1	2	3	4
Market value of positions offset x 5.00%	*Market value* of positions offset x 10.00%	*Market value* of positions offset x 20.00%	*Market value* of positions offset x 50.00%

5467. Alternative calculation approach for Dealer Member foreign exchange positions

(1) As an alternative to the foreign exchange margin requirement determined under sections 5463 through 5466 for futures and forward contract inventory positions denominated in a currency which has a currency *futures contract* which trades on an *applicable exchange*, the foreign exchange margin requirement may be calculated as follows.

(i) **Futures contracts -** *Foreign exchange positions* consisting of *futures contracts* may be margined at the margin rates prescribed by the exchange on which such futures are listed.

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(ii) **Forward contracts offsets** - Forward contract positions which are not denominated in Canadian dollars may be margined as follows:

(a) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,

(b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of sub-clause 5467(1)(ii)(b).

(iii) **Futures and forward contract offsets** - Futures and forward contract positions which are not denominated in Canadian dollars may be margined as follows:

(a) (I) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,

(II) margin rates applicable to unhedged positions under paragraph 5467(1)(iii)(a)(I) are the rates established by sections 5461 through 5466 and not the rates prescribed by the exchange on which the *futures contracts* are listed,

(b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of sub-clause 5467(1)(iii)(b).

5468. Client account margin requirements

(1) The minimum *client account margin* requirements for *foreign exchange positions* are the aggregate of the spot risk margin requirement and term risk margin requirement calculated for each position provided that:

(i) Where the positions are held in an account of:

(a) an *acceptable institution*, no margin is required, or

(b) an *acceptable counterparty* or a *regulated entity*, margin is calculated on a mark-to-market basis.

(ii) The margin required in respect of *foreign exchange positions* (excluding cash balances) held in the accounts of clients who are classified as other counterparties, as defined in Form 1, which are denominated in a currency other than the currency of the account, is the aggregate of the security margin requirement and the foreign exchange margin requirement, provided that where the margin rate applicable to the security is greater than the spot risk margin rate, the foreign exchange margin requirement is nil.

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The sum of the security margin requirement and the foreign exchange margin requirement shall not exceed 100%.

(iii) Listed *futures contracts* are margined in the same manner as prescribed in section 5790.

5469. Foreign exchange concentration charge

(1) In respect of any Group 2, Group 3 or Group 4 currency, a concentration charge as calculated in subsection 5469(2) may apply.

(2) The concentration charge that applies for any Group 2, Group 3 or Group 4 currency, is any excess of the aggregate of the foreign exchange margin provided under sections 5461 through 5468 on a *Dealer Member's monetary assets* and *monetary liabilities* and the foreign exchange margin on client accounts over 25% of the firm's net allowable assets net of minimum capital (as determined for the purposes of Form 1) as determined on a currency by currency basis.

5470. – 5499. Reserved.

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RULE 5500

MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS AND WHEN ISSUED TRADING

5501. Introduction

(1) Rule 5500 covers *Dealer Member inventory margin* requirements for underwriting *commitments* and offsets involving underwriting *commitments* and *Dealer Member inventory margin* and *client account margin* requirements for when issued trading positions. The order of subjects in Rule 5500 is:

(i) underwriting *commitment* amount [section 5510]

(ii) margin requirements for underwriting *commitments*:

(a) where a *new issue letter* has not been obtained [section 5520],

(b) where a *new issue letter* has been obtained [section 5521],

(c) where expressions of interest from *exempt purchasers* have been received [section 5522],

(d) alternative approach to margining private placements of restricted *equity securities* [section 5523],

(e) standby commitment to purchase securities under a rights offering [section 5524],

(iii) underwriting related agreements [section 5530],

(iv) individual and overall underwriting concentration charges [sections 5540 and 5541],

(v) specific offset strategies involving *commitments* to purchase [sections 5550 through 5552],and

(vi) margin requirements for when issued trading positions [sections 5560 through 5562].

5502. - 5509. Reserved.

UNDERWRITING COMMITMENT AMOUNT

5510. Underwriting commitment amount

(1) In determining the amount of a *Dealer Member's* underwriting *commitment* for the purposes of sections 5520 through 5524, sections 5530 and 5531 and sections 5540 and 5541, receivables from *Dealer Members* of the banking or selling groups in respect of firm obligations to take down a portion of a new issue of securities (that is not after market trading) may be deducted from the liability of the

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Dealer Member to the issuer.

5511. - 5519. Reserved.

MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS

5520. Margin requirements for underwriting commitments where a new issue letter has not been obtained

(1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has not been obtained is calculated in accordance with subsections 5520(2) through 5520(5).

(2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:

(i) from the *commitment* date to 20 *business days* after settlement date, *normal new issue margin*,

(ii) thereafter, *normal margin*.

(3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *disaster out clause*, whichever is earlier, 50% of *normal new issue margin*, and

(ii) thereafter, the same as in subsection 5520(2).

(4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and

(ii) thereafter, the same as in subsection 5520(2).

(5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:

(i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and

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(ii) thereafter:

(a) where the *disaster out clause* is still in effect, the same as in subsection 5520(3), or

(b) where the *disaster out clause* is also no longer effect, the same as in subsection 5520(2).

5521. Margin requirements for underwriting commitments where a new issue letter has been obtained

(1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has been obtained is calculated in accordance with subsections 5521(2) through 5521(6).

(2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* has not expired, 10% of *normal new issue margin*, and

(b) where the *new issue letter* has expired, *normal new issue margin*,

(ii) from settlement date of the offering:

(a) where the *new issue letter* has been drawn:

(I) from settlement date to five *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 10% of *normal new issue margin*,

(II) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 25% of *normal new issue margin*,

(III) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 50% of *normal new issue margin*,

(IV) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 75% of *normal new issue margin*, and

(V) thereafter, *normal margin*, and

(b) where the *new issue letter* has not been drawn:

(I) from settlement date to 20 *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 100% of *normal new issue margin*, and

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(II) thereafter, *normal margin*.

(3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* has not expired, 10% of *normal new issue margin*,

(b) where the *disaster out clause* has not expired, 50% of *normal new issue margin*, and

(c) where the *new issue letter* and the *disaster out clause* have expired, *normal new issue margin*,

(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,

(b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,

(c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*, and

(d) where both the *new issue letter* and the *market out clause* have expired, *normal new issue margin*,

(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:

(i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:

(a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,

(b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,

(c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*,

(d) where both the *new issue letter* and the *market out clause* have expired and the *disaster out clause* has not expired, 50% of *normal new issue margin*, and

(e) where the *new issue letter*, the *market out clause* and the *disaster out clause* have all expired, *normal new issue margin*,

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(ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

(6) If the margin rates prescribed in subsections 5521(2) through 5521(5)in respect of *commitments* for which a *new issue letter* is available are less than the margin rates required by the issuer of such letter, the higher rates required by the issuer shall be applied.

5522. Margin requirements for underwriting commitments where expressions of interest from exempt purchasers have been affirmed

(1) Where a *Dealer Member* has a *commitment* in respect of a new issue of securities or a secondary issue of securities and the *Dealer Member* has determined through obtaining *appropriate documentation*:

(i) that the allocation between retail and *exempt purchasers* has been finalized,

(ii) that expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed,

(iii) that there is unlikely to be a significant renege rate on the expressions of interest received from *exempt purchasers*, and

(iv) that the *Dealer Member* is not significantly leveraging its underwriting activities through the use of the margin requirement reduction provided on that portion of the *commitment* where expressions of interest have been received from *exempt purchasers*,

the minimum *Dealer Member inventory margin* requirement for the portion of the *commitment* allocated to *exempt purchasers* is calculated in accordance with subsections 5522(2) through 5522(6).

(2) **New issue letter has not been obtained and no out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement) and a *new issue letter* has not been obtained or has expired, the margin required from the date that the expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed until the date the sales are contracted is:

(i) where the current *market value* of the *commitment* is at or above 90% of new issue value (90% x issue price x number of shares), 20% of *normal new issue margin*,

(ii) where the current *market value* of the *commitment* is at or above 80% but below 90% of new issue value (80% x issue price x number of shares), 40% of *normal new issue margin*, and

(iii) otherwise, *normal new issue margin*.

(3) **New issue letter has not been obtained and disaster out clause in effect** - Where the *commitment* is subject to a *disaster out*

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clause (by reference in the *commitment* to such clause being included in the underwriting agreement) and the *disaster out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the lesser of:

(i) the margin required in subsection 5522(2), and

(ii) the margin required in subsection 5520(3).

(4) **New issue letter has not been obtained and market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(4).

(5) **New issue letter has not been obtained and disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(5).

(6) **New issue letter has been obtained** - Where a *new issue letter* has been obtained and the *new issue letter* has not expired, the margin required is the same as in section 5521.

5523. Alternative approach to margining of private placements of restricted equity securities during the distribution period

(1) For a private placement of an *equity security* subject to a four-month trading restriction (pursuant to National Instrument 45-102 or a similar provincial *securities laws* exemption), an alternative approach to margining is permitted. The alternative approach is set out in subsection 5523(2).

(2) The margin rate to be used for the private placement during the distribution period shall be the greater of:

(i) the margin rate that would be otherwise applicable to the security if the restriction were not present, subject to the margin rate reductions available in sections 5520 through 5522, and

(ii) (a) where it is five *business days* or less subsequent to the *commitment* date, 25%,

(b) where it is greater than five *business days* subsequent to the *commitment* date, 50%, and

(c) where it is on or after the offering settlement date, 100%.

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5524. Margin requirements for a standby commitment to purchase securities under a rights offering

(1) The minimum *Dealer Member inventory margin* requirement for a standby commitment to purchase securities under a rights offering is calculated in accordance with subsection 5524(2).

(2) The margin required is:

(i) where the *market value* of the *underlying security* is greater than 125% of the subscription amount, nil,

(ii) where the *market value* of the *underlying security* is greater than 110% but less than or equal to 125% of the subscription amount, 10% of the *normal margin* rate multiplied by the subscription amount,

(iii) where the *market value* of the *underlying security* is greater than 105% but less than or equal to 110% of the subscription amount, 30% of the *normal margin* rate multiplied by the subscription amount,

(iv) where the *market value* of the *underlying security* is greater than 100% but less than or equal to 105% of the subscription amount, 50% of the *normal margin* rate multiplied by the subscription amount, and

(v) where the *market value* of the *underlying security* is less than or equal to 100% of the subscription amount, the *normal margin* rate multiplied by the *market value* of the *underlying security*.

5525. - 5529. Reserved.

UNDERWRITING RELATED AGREEMENTS

5530. New issue letter

(1) To obtain the reduced margin requirements in section 5521 for an underwriting *commitment*, a *Dealer Member* must be party to a *new issue letter.*

(2) In subsection 5130(5), a *new issue letter* is defined as an underwriting loan facility in a form satisfactory to *IIROC*. For the letter to be satisfactory, it must contain the following minimum terms and conditions:

(i) the letter issuer must provide an irrevocable commitment to advance funds based only on the strength of the new issue and the *Dealer Member*,

(ii) the letter issuer must advance funds to the *Dealer Member* for any part of the *commitment* not sold, for an amount based on a stated *loan value* rate, at a stated interest rate, and for a stated period of time,

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(iii) the letter issuer must not, if the *Dealer Member* is unable to repay the loan at the termination date resulting in a loss or potential loss to the letter issuer, have or seek any right of set-off against:

(a) collateral held by the letter issuer for any other obligations of the *Dealer Member* or its clients,

(b) cash on deposit with the letter issuer for any purpose, or

(c) securities or other assets held in a custodial capacity by the letter issuer for the *Dealer Member's* own account or for the *Dealer Member's* clients,

to recover the loss or potential loss.

(3) If the *new issue letter* issuer is not an *acceptable institution*, the funds that can be drawn under the *new issue letter* must either be fully collateralized by high-grade securities or held in escrow with an *acceptable institution*.

5531. - 5539. Reserved.

INDIVIDUAL AND OVERALL UNDERWRITING CONCENTRATION CHARGES

5540. Individual underwriting concentration charge

(1) Where:

(i) the margin required on any one *commitment* is reduced due to either:

(a) obtaining a *new issue letter* in accordance with section 5521, or

(b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,

and

(ii) the margin requirement reduction in respect of such *commitment* (determined by comparing the margin requirement calculated in section 5521 or section 5522 with the margin requirement otherwise applicable and calculated in section 5520), exceeds 40% of such *Dealer Member's* net allowable assets,

such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 or section 5522 on the individual underwriting position to which such excess relates.

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5541. Overall underwriting concentration charge

(1) Where:

(i) the margin required on some or all *commitments* is reduced due to either:

(a) obtaining a *new issue letter* in accordance with section 5521, or

(b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,

and

(ii) the aggregate margin requirement reductions in respect of such *commitments* (determined by comparing the margin requirements calculated in section 5521 and section 5522 with the margin requirements otherwise applicable and calculated in section 5520), exceeds 100% of such *Dealer Member's* net allowable assets,

such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 and section 5522 above on individual underwriting positions and by the amount required to be deducted from *risk adjusted capital* pursuant to section 5540.

5542. - 5549. Reserved.

SPECIFIC OFFSET STRATEGIES INVOLVING COMMITMENTS TO PURCHASE

5550. Long qualifying basket of index securities - Short index participation units - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		**Short position**		**Commitment**
(i)	*qualifying basket of index securities*	and	*index participation units* based on the same *index*	and	*commitment* to purchase *index participation units* pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in

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accordance with subsection 5550(2).

(2) No margin is required provided the long *qualifying basket of index securities*:

(i) is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units,

and

(ii) does not exceed the *Dealer Member's commitment* to purchase the participation units.

5551. Long qualifying basket of index securities - Short index participation unit call options - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		Short option position		Commitment
(i)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*	and	*commitment* to purchase *index participation units* pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the short *call options*, the minimum margin required for the combination is calculated in accordance with subsection 5551(2).

(2) Subject to additional margin requirements set out in subsection 5551(3), the minimum margin required is the *normal margin required* on the long qualifying basket less the *market value* of the short *call options*, but in no event shall the margin required be less than zero.

(3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5552. Long qualifying basket of index securities - Long index participation unit put options - Commitment to purchase index participation units

(1) Where a *Dealer Member* inventory account contains the following combination:

	Long position		Long option position		Commitment
(i)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*	and	*commitment* to purchase *index participation units* pursuant to an underwriting agreement

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the long *put options*, the minimum margin required for the combination is calculated in accordance with subsection 5552(2).

(2) Subject to additional margin requirements set out in subsection 5552(3), the minimum margin required is:

(i) 100% of the *market value* of the long *put options*,

plus

(ii) the lesser of:

(a) the *normal margin required* on the long *qualifying basket of index securities*,

or

(b) the *market value* of the *qualifying basket of index securities* less the *aggregate exercise value* of the *put options*.

A negative value calculated under sub-clause 5552(2)(ii)(b) may reduce the margin required on the *put options*, but in no event shall the margin required be less than zero.

(3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5553. - 5559. Reserved.

MARGIN REQUIREMENTS FOR WHEN ISSUED TRADING POSITIONS

5560. Margin for short positions

(1) Subject to subsections 5560(2) and 5560(3), the minimum *Dealer Member inventory margin* and *client account margin* required for short positions resulting from short sales of a security traded on a when issued basis is the *normal margin required* for a short position in the security.

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(2) *Dealer Member inventory margin* shall be posted on the trade date of the short sale.

(3) *Client account margin* shall be posted on the second settlement day after the trade date of the short sale.

5561. Margin for hedged positions

(1) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold on a when issued basis is the *normal margin required* for a long position in the security.

(2) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold for settlement into the regular market is the *normal margin required* for a short position in the security.

(3) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.

(4) *Client account margin* shall be posted on the second settlement day after the trade date of the sale.

5562. Margin for long positions

(1) Subject to subsections 5562(2) and 5562(3), the minimum *Dealer Member inventory margin* and *client account margin* required for long positions resulting from purchases of securities *trading on a when issued basis* that have not been sold subsequently on a when issued basis is the *normal margin required* for a long position in the security.

(2) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.

(3) *Client account margin* shall be posted on the later of the second settlement day after the trade date of the purchase and the date of the issuance or distribution of the security.

5563. - 5599. Reserved.

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RULE 5600

MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DEBT AND EQUITY SECURITIES AND RELATED INSTRUMENTS

5601. Introduction

(1) Rule 5600 addresses the margin treatment of security positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies.

(2) The order of subjects in Rule 5600 is:

(i) *Dealer Member* inventory and client account offset strategies involving:

(a) *debt securities*:

(I) government *debt securities* [sections 5610 through 5618],

(II) commercial and corporate *debt securities* [sections 5620 through 5624], and

(III) government *debt securities* and commercial and corporate *debt securities* [sections 5630 through 5631],

(b) convertible and *exercisable securities:*

(I) *convertible securities* [sections 5640 through 5644],

(II) *capital shares* [sections 5650 to 5655], and

(III) warrants, rights, *installment receipts* and other *exercisable securities* [sections 5660 through 5663],

and

(ii) offsets only available for *Dealer Member* inventory positions:

(a) *debt securities* [sections 5670 through 5671], and

(b) swap positions [section 5680 through 5682].

5602. - 5609. Reserved.

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DEALER MEMBER INVENTORY AND CLIENT ACCOUNT OFFSET STRATEGIES

OFFSETS INVOLVING GOVERNMENT DEBT SECURITIES AND RELATED INSTRUMENTS

5610. Summary reference tables

(1) The following reference table summarizes the reduced margin offset strategies available among government *debt securities*:

	Short Canada debt securities	**Short United States debt securities**	**Short Canada Provincial debt securities**	**Short Canada Municipal debt securities**
Long Canada debt securities	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(3)(i)	same *maturity band* - 5614(1)(i)	same *maturity band* - 5614(1)(ii) and 5614(3)(iii)
	different *maturity bands* - 5613(1)(i)	different *maturity bands* - no offset available	different *maturity bands* - 5613(1)(ii)	different *maturity bands* - no offset available
Long United States debt securities	same *maturity band* - 5614(3)(i)	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(3)(ii)	same *maturity band* - 5614(3)(iv)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canada Provincial debt securities	same *maturity band* - 5614(1)(i)	same *maturity band* - 5614(3)(ii)	same *maturity band* - 5611 and 5612	same *maturity band* - 5614(1)(iii) and 5614(3)(v)
	different *maturity bands* - 5613(1)(ii)	different *maturity bands* - no offset available	different *maturity bands* - 5613(1)(iii)	different *maturity bands* - no offset available
Long Canada Municipal debt securities	same *maturity band* - 5614(1)(ii) and 5614(3)(iii)	same *maturity band* - 5614(3)(iv)	same *maturity band* - 5614(1)(iii) and 5614(3)(v)	same *maturity band* - offset available for long and short positions in same security
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available

(2) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities*

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and strip and residual debt instruments:

	Short Canada debt securities	**Short Canada Provincial debt securities**	**Short Canada strips or Canada residuals**	**Short Provincial strips or Provincial residuals**
Long Canada debt securities	**Refer to table in subsection 5610(1)**		same issuer and *maturity band* - 5615(1)(i) and 5615(1)(ii)	same *maturity band* - 5615(2)(i) and 5615(2)(ii)
			different issuers or *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canada Provincial debt securities			same *maturity band* - 5615(2)(iii) and 5615(2)(iv)	same *maturity band* - 5615(1)(v) and 5615(1)(vi)
			different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canada strips or Canada residuals	same *maturity band* - 5615(1)(i) and 5615(1)(ii)	same *maturity band* - 5615(2)(iii) and 5615(2)(iv)	same *maturity band* - 5615(3)(i) through 5615(3)(iii)	same *maturity band* - 5615(4)(i) through 5615(4)(iv)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Provincial strips or Provincial residuals	same *maturity band* - 5615(2)(i) and 5615(2)(ii)	same *maturity band* - 5615(1)(v) and 5615(1)(vi)	same *maturity band* - 5615(4)(i) through 5615(4)(iv)	same *maturity band* - 5615(3)(iv) through 5615(3)(vi)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available

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(3) The following reference table summarizes the reduced margin offset strategies available between foreign federal government *debt securities* and foreign federal government strip and residual debt instruments:

	Short foreign federal government debt securities	**Short foreign federal government strips or foreign federal government residuals**
Long foreign federal government debt securities	**Refer to table in subsection 5610(1)**	same issuer and *maturity band* - 5615(1)(iii) and 5615(1)(iv)
		different issuers or *maturity bands* - no offset available
Short foreign federal government strips or foreign federal government residuals	same issuer and *maturity band* - 5615(1)(iii) and 5615(1)(iv)	same issuer and *maturity band* - offset available for long and short positions in same security
	different issuer or *maturity bands* - no offset available	different issuer or *maturity bands* - no offset available

(4) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities* and Canadian government guaranteed mortgage-backed securities:

	Short Canada debt securities	**Short Canada mortgage-backed securities**
Long Canada debt securities	**Refer to table in subsection 5610(1)**	same *maturity band* - 5616(1)(i)
		different *maturity bands* - no offset available
Long Canada mortgage-backed securities	same *maturity band* - 5616(1)(i)	same *maturity band* - offset available for long and short positions in same security
	different *maturity bands* - no offset available	different *maturity bands* - no offset available

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(5) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and government debt *futures contracts*:

<table>
<tr><th></th><th>Short Canada debt securities</th><th>Short Canada Provincial debt securities</th><th>Short Canada Municipal debt securities</th><th>Short Canada bond futures</th></tr>
<tr><td rowspan="2">Long Canada debt securities</td><td colspan="3" rowspan="6">Refer to table in subsection 5610(1)</td><td>same maturity band
- 5617(1)(i)</td></tr>
<tr><td>different maturity bands
- 5618(1)(i)</td></tr>
<tr><td rowspan="2">Long Canada Provincial debt securities</td><td>same maturity band
- 5618(1)(ii)</td></tr>
<tr><td>different maturity bands
- 5618(1)(ii)</td></tr>
<tr><td rowspan="2">Long Canada Municipal debt securities</td><td>same maturity band
- 5618(1)(iii)</td></tr>
<tr><td>different maturity bands
- no offset available</td></tr>
<tr><td rowspan="2">Long Canada bond futures</td><td>same maturity band
- 5617(1)(i)</td><td>same maturity band
- 5618(1)(ii)</td><td>same maturity band
- 5618(1)(iii)</td><td>same maturity band -
• same contract - margin computed on the net long or net short contract position
• different contracts - refer to requirements on exchange on which the contract trades</td></tr>
<tr><td>different maturity bands
- 5618(1)(i)</td><td>different maturity bands
- 5618(1)(ii)</td><td>different maturity bands
- no offset available</td><td>different maturity bands
- refer to requirements on exchange on which the contract</td></tr>
</table>

				trades

5611. Government debt securities of same issuer and both maturing within one year

(1) Where a *Dealer Member* or a client:

(i) has a long position in *Canada debt securities*, *United States debt securities*, *Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing within one year, and

(ii) has a short position in *debt securities*:

(a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),

(b) in the same currency as the securities referred to in clause 5611(1)(i),

(c) maturing within one year, and

(d) with a *market value* equal to the securities referred to in clause 5611(1)(i),

the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

5612. Government debt securities of same issuer with same maturity band and both maturing in greater than or equal to one year

(1) Where a *Dealer Member* or a client:

(i) has a long position in *Canada debt securities*, *United States debt securities*, *Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing in greater than or equal to one year, and

(ii) has a short position in *debt securities*:

(a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),

(b) and in the same currency as the securities referred to in clause 5612(1)(i),

(c) maturing within the same *maturity band* as the securities referred to in clause 5612(1)(i), and

(d) with a *market value* equal to the securities referred to in clause 5612(1)(i),

the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or

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net short position only.

5613. Government debt securities with different maturity bands

(1) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada debt securities*
(ii)	*Canada debt securities*	and	*Canada Provincial debt securities*
(iii)	*Canada Provincial debt securities*	and	*Canada Provincial debt securities*

and the positions have the same currency denomination and *market value* but are within different *maturity bands*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

5614. Government debt securities of different issuers with same maturity band

(1) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada Provincial debt securities*
(ii)	*Canada debt securities*	and	highly rated *Canada Municipal debt securities*
(iii)	*Canada Provincial debt securities*	and	highly rated *Canada Municipal debt securities*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5614(1) "highly rated *Canada Municipal debt securities*" are *Canada Municipal debt securities* currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

(3) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

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	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*United States debt securities*
(ii)	*United States debt securities*	and	*Canada Provincial debt securities*
(iii)	*Canada debt securities*	and	*Canada Municipal debt securities*
(iv)	*United States debt securities*	and	*Canada Municipal debt securities*
(v)	*Canada Provincial debt securities*	and	*Canada Municipal debt securities*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

5615. Offsets involving government debt securities and strip coupons or residuals

(1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) government strip coupon or residual position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada strips*
(ii)	*Canada debt securities*	and	*Canada residuals*
(iii)	Federal government *debt securities* eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government strips
(iv)	Federal government *debt securities* eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government residuals
(v)	*Canada Provincial debt securities*	and	*Canada Provincial strips*
(vi)	*Canada Provincial debt securities*	and	*Canada Provincial residuals*

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and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the strip coupon or residual position over the *normal margin required* on the *debt security* position.

(2) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) government strip coupon or government residual position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	*Canada Provincial strips*
(ii)	*Canada debt securities*	and	*Canada Provincial residuals*
(iii)	*Canada Provincial debt securities*	and	*Canada strips*
(iv)	*Canada Provincial debt securities*	and	*Canada residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the total *normal margin required* for both positions.

(3) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada strips*	and	*Canada strips*
(ii)	*Canada residuals*	and	*Canada residuals*
(iii)	*Canada strips*	and	*Canada residuals*
(iv)	*Canada Provincial strips*	and	*Canada Provincial strips*
(v)	*Canada Provincial residuals*	and	*Canada Provincial residuals*
(vi)	*Canada Provincial strips*	and	*Canada Provincial residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

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(4) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada strips*	and	*Canada Provincial strips*
(ii)	*Canada strips*	and	*Canada Provincial residuals*
(iii)	*Canada residuals*	and	*Canada Provincial strips*
(iv)	*Canada residuals*	and	*Canada Provincial residuals*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the total *normal margin required* for both positions.

5616. Offsets involving government debt securities and government guaranteed mortgage-backed securities

(1) Subject to subsection 5616(2), where a *Dealer Member* or a client has the following pairing:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	Canada guaranteed mortgage-backed securities

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the mortgage-backed security position over the *normal margin required* on the *debt security* position.

(2) Where:

(i) the *market value* of the mortgage-backed securities position equals or exceeds the remaining principal amount of such position, and

(ii) the mortgages underlying the mortgage-backed securities position are subject to being repaid with or without penalty in full at the option of the mortgagee prior to maturity,

the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the *normal margin required* on the mortgage-backed security position and the *normal margin required* on the *debt security* position.

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5617. Offsets involving government debt securities and Government of Canada notional bond futures contracts with same underlying issuer and same maturity bands

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	*Canada debt securities*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

5618. Other offsets involving government debt securities and Government of Canada notional bond futures contracts

(1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	Long (short) position		Short (long) position
(i)	*Canada debt securities* in different *maturity band*	and	Government of Canada notional bond *futures contract*
(ii)	*Canada Provincial debt securities* in same or different *maturity band*	and	Government of Canada notional bond *futures contract*
(iii)	highly rated *Canada Municipal debt securities* in same *maturity band*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5618(1) "highly rated Canada Municipal debt securities" are Canada Municipal *debt securities* currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

5619. Reserved.

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OFFSETS INVOLVING COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS

5620. Summary reference tables

(1) The following reference table summarizes the reduced margin offset strategies available among commercial and corporate *debt securities*:

	Short commercial and corporate debt securities	**Short Canadian chartered bank acceptances**	**Short Canadian bankers acceptance futures contracts**
Long commercial and corporate debt securities	same *maturity band* - offset available for securities of same issuer - 5621(1)(i)	same *maturity band* - no offset available	same *maturity band* - no offset available
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canadian chartered bank acceptances	same *maturity band* - no offset available	same *maturity band* - offset available for same security only	same *maturity band* - 5622(1)(i)
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - no offset available
Long Canadian bankers acceptance futures contracts	same *maturity band* - no offset available	same *maturity band* - 5622(1)(i)	same *maturity band* - • same contract - margin computed on the net long or net short contract position • different contracts - refer to requirements on exchange on which the contract trades
	different *maturity bands* - no offset available	different *maturity bands* - no offset available	different *maturity bands* - refer to requirements on exchange on which the contract trades

(2) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt*

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securities and strip and residual debt instruments:

	Short commercial and corporate debt	**Short commercial and corporate debt strips or residuals**
Long commercial and corporate debt	**Refer to table in subsection 5620(1)**	same *maturity band* - offset available where strip or residual is of the same issuer - 5623(1)(i)
		different *maturity bands* no offset available
Long commercial and corporate debt strips or residuals	same *maturity band* - offset available where strip or residual is of the same issuer - 5623(1)(i)	same *maturity band* - offset available for long and short positions in same strip or same residual
	different *maturity bands* - no offset available	different *maturity bands* - no offset available

(3) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt securities* and government debt *futures contracts*:

	Short commercial and corporate debt	**Short Canada bond futures**
Long commercial and corporate debt	**Refer to table in subsection 5620(1)**	same *maturity band* - 5624(1)(i)
		different *maturity bands* - no offset available
Long Canada bond futures	same *maturity band* - 5624(1)(i)	**Refer to table in subsection 5610(5)**
	different *maturity bands* - no offset available	

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5621. Commercial and corporate debt securities of same issuer with same maturity band

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	highly rated non-convertible commercial and corporate *debt securities* of the same issuer

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5621(1) "highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

5622. Offsets involving Canadian chartered bank acceptances and Canadian bankers acceptance futures contracts with same maturity bands

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	highly rated *chartered bank* acceptances	and	*Canadian banker acceptance futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

(2) In subsection 5622(1) "highly rated *chartered bank* acceptances" are bank acceptances currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

5623. Offsets involving commercial and corporate debt securities and strip coupons or residuals

(1) Where a *Dealer Member* or a client has the following pairing:

	Long (short) position		Short (long) position
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	strips or residuals whose underlier is highly rated non-convertible commercial and corporate *debt securities* of the same issuer

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the minimum margin

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required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions, subject to a maximum margin rate requirement of 20%.

(2) In subsection 5623(1) "highly rated non-convertible commercial and corporate *debt securities*" are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

5624. Offsets involving commercial and corporate debt securities and Government of Canada notional bond futures contracts

(1) Where a *Dealer Member* or a client has one of the following long (short) commercial and corporate *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	Long (short) position		**Short (long) position**
(i)	highly rated non-convertible commercial and corporate *debt securities*	and	Government of Canada notional bond *futures contract*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5624(1) "highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by DBRS, Moody's or S&P Corporation.

5625. - 5629. Reserved.

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OFFSETS INVOLVING GOVERNMENT AND COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS

5630. Summary reference table

(1) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and commercial and corporate *debt securities*:

<table>
<tr><th></th><th>Short Canada debt securities</th><th>Short United States treasury debt securities</th><th>Short Canada Provincial debt securities</th><th>Short commercial and corporate debt securities</th></tr>
<tr><td rowspan="2">Long Canada debt securities</td><td rowspan="6" colspan="3">Refer to table in subsection 5610(1)</td><td>same maturity band
- 5631(1)(i)</td></tr>
<tr><td>different maturity bands
- no offset available</td></tr>
<tr><td rowspan="2">Long United States treasury debt securities</td><td>same maturity band
- 5631(1)(ii)</td></tr>
<tr><td>different maturity bands
- no offset available</td></tr>
<tr><td rowspan="2">Long Canada Provincial debt securities</td><td>same maturity band
- 5631(1)(iii)</td></tr>
<tr><td>different maturity bands
- no offset available</td></tr>
<tr><td rowspan="2">Long commercial and corporate debt securities</td><td>same maturity band
- 5631(1)(i)</td><td>same maturity band
- 5631(1)(ii)</td><td>same maturity band
- 5631(1)(iii)</td><td rowspan="2">Refer to table in subsection 5620(1)</td></tr>
<tr><td>different maturity bands
- no offset available</td><td>different maturity bands
- no offset available</td><td>different maturity bands
- no offset available</td></tr>
</table>

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5631. Government and commercial corporate debt securities with same maturity band

(1) Where a *Dealer Member* or a client has one of the following long (short) government and short (long) commercial and corporate *debt security* position pairings:

	Long (short) position		**Short (long) position**
(i)	*Canada debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*
(ii)	United States treasury *debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*
(iii)	*Canada Provincial debt securities*	and	highly rated non-convertible commercial and corporate *debt securities*

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

(2) In subsection 5631(1) "highly rated non-convertible commercial and corporate *debt securities"* are non-convertible commercial and corporate *debt securities* currently rated "A" or higher by DBRS, Moody's or

S&P Corporation.

5632. - 5639. Reserved.

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OFFSETS INVOLVING CONVERTIBLE SECURITIES

5640. Summary reference table

(1) The following reference table summarizes the basic reduced margin offset strategies available for *convertible securities*:

	Short convertible security	**Short underlying security**
Long convertible security	*currently convertible* - offset available for long and short positions in the same security	*currently convertible* - offset available where: • convertible into the *underlying security* - 5641(1)(i) • convertible into the cash equivalent of the unit value of the *underlying security* - 5641(1)(i) and 5641(1)(ii)
	not *currently convertible* - offset available for long and short positions in same security	not *currently convertible* - 5642(1)
Long underlying security	offset available - 5643(1)	offset available for long and short positions in the same security

(2) Other reduced margin offset strategies available for *convertible securities*:

(i) offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction - 5644

5641. Offset where convertible security is held long and is currently convertible

(1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is *currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) if the *convertible security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying security*.

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5642. Offset where convertible security is held long and is not currently convertible

(1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is not *currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) 40% of the *normal margin required* on the *underlying security*.

5643. Offset where convertible security is held short

(1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in a *convertible security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *conversion loss*, if any,

and

(ii) 40% of the *normal margin required* on the *underlying security*.

5644. Offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction

(1) Where a *Dealer Member* or a client holds a long position in *Oldco securities* and short position in *Newco securities* and *equivalent quantities* of both positions are held and the pending reorganization that resulted in the creation of the *Newco securities* has received approval to proceed, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the combined *market value* of the *Oldco securities* over the combined *market value* of the *Newco securities*, if any.

(2) For the purposes of subsection 5644(1), "approval to proceed" means that:

(i) all legal requirements to proceed with the reorganization have been met,

(ii) all regulatory, competition bureau and court approvals to proceed with the reorganization have been received, and

(iii) the *Oldco securities* will be cancelled and replaced by an *equivalent number* of *Newco securities* within 20 *business days*.

5645. - 5649. Reserved.

IIROC Rule

OFFSETS INVOLVING CAPITAL SHARES

5650. Summary reference tables

(1) The following reference table summarizes the basic reduced margin offset strategies available for *capital shares*:

	Short capital share, with a conversion feature	**Short capital share and short split share preferred share, both with a conversion feature**	**Short underlying security**
Long capital share, with a conversion feature	offset available for long and short positions in same *capital share*	offset available for long and short positions in same *capital share*. *Normal margin* to be provided on short *split share preferred share* position	*capital share* can be converted into *underlying security* - 5651(1)(i)
			capital share can be converted into cash equivalent of unit value of *underlying security* - 5651(1)(i) and 5651(1)(ii)
Long capital share and long split share preferred share, both with a conversion feature	offset available for long and short positions in same *capital share*. *Normal margin* to be provided on long *split share preferred share* position	offset available for long and short positions in same *capital share* and same *split share preferred share*	*capital share* and *split share preferred share* can be converted into *underlying security* - 5652(1)(i)
			capital share and *split share preferred share* can be converted into cash equivalent of unit value of *underlying security* - 5652(1)(i) and 5651(2)(ii)
Long underlying security	offset available - 5653(1)	offset available - 5654(1)	offset available for long and short positions in same *underlying security*

(2) Other reduced margin offset strategies available for *capital shares*:

(i) offset involving long capital share and short *call option* contract positions - *5655*

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5651. Offset involving long capital share and short underlying common share positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the sum of:

(I) the *capital share conversion loss*, if any, and

(II) the *normal margin required* on the *equivalent quantity* of *split share preferred shares*,

and

(b) the *normal margin required* on the underlying common shares,

and

(ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the margin otherwise required on the underlying common shares.

5652. Offset involving long capital share, long split share preferred share and short underlying common share positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position, a long *split share preferred share* position and a short underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

(i) lesser of:

(a) the *combined conversion loss*, if any, and

(b) the *normal margin required* on the underlying common shares,

and

(ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the margin otherwise required on the underlying common shares.

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5653. Offset involving short capital share and long underlying common share positions

(1) Where a *Dealer Member* or a client holds a short *capital share* position and a long underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the sum of:

(I) the *capital share conversion loss*, if any, and

(II) the *normal margin required* on the *equivalent quantity* of *split share preferred shares*,

and

(b) the *normal margin required* on the underlying common shares,

and

(ii) 40% of the *normal margin required* on the underlying common shares.

5654. Offset involving short capital share, short split share preferred share and long underlying common share positions

(1) Where a *Dealer Member* or a client holds a short *capital share* position, a short *split share preferred share* position and a long underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

(i) lesser of:

(a) the *combined conversion loss*, if any, and

(b) the *normal margin required* on the underlying common shares,

and

(ii) 40% of the *normal margin required* on the underlying common shares.

5655. Offset involving long capital share and short call option contract positions

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short *call option* contract position expiring on or before the

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redemption date of the *capital shares* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the *normal margin required* on the *capital share* position less the *market value* of the *call option* contract position, provided that the net amount may not be less than zero,

and

(b) any excess of the *market value* of the underlying common shares over the *aggregate exercise value* of the *call option* contract position,

and

(ii) the *capital share conversion loss*, if any,

and

(iii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the underlying common shares.

5656. - 5659. Reserved.

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OFFSETS INVOLVING WARRANTS, RIGHTS, INSTALLMENT RECEIPTS AND OTHER EXERCISABLE SECURITIES

5660. Summary reference tables

(1) The following reference table summarizes the basic reduced margin offset strategies available for *exercisable securities*:

	Short exercisable security	**Short underlying security**
Long exercisable security	*currently exercisable* - offset available for long and short positions in same security	*currently exercisable* - offset available where: • *exercisable security* can be exercised into *underlying security* - 5661(1)(i) and 5661(1)(ii) • *exercisable security* can be exercised into cash equivalent of unit value of *underlying security* - 5661(1)(i) through 5661(1)(iii)
	not *currently exercisable* - offset available for long and short positions in same security	not *currently exercisable* - 5662(1)
Long underlying security	offset available - 5663(1)	offset available for long and short positions in same security

5661. Offset where exercisable security is held long and is currently exercisable

(1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is *currently exercisable* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

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and

(iii) if the *exercisable security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying securities*.

5662. Offset where exercisable security is held long and is not currently exercisable

(1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is not *currently exercisable* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

and

(iii) 40% of the margin otherwise required on the *underlying securities*.

5663. Offset where exercisable security is held short

(1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in an *exercisable security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) the *exercise loss*, if any,

and

(ii) for client account positions, the amount of the exercise or subscription payment,

and

(iii) 40% of the margin otherwise required on the *underlying securities*.

5664. - 5669. Reserved.

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OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS

DEBT SECURITIES

5670. Offsets involving callable, extendible and retractable debt securities

(1) Where a *Dealer Member* holds a position in *callable*, *extendible* or *retractable debt securities* they may elect to use a different maturity date for reduced margin offset purposes than the original maturity date of the security if the applicable conditions in the chart below are met:

Security	Condition	Maturity date election
(i) *Callable debt security*	*Market value* of security at or below 101% of call value	Original maturity date
	Market value of security greater than 101% of the call value	First *business day* after expiry date of *call protection period*
(ii) *Extendible debt security*	*Extension election period* has not expired and security is trading at or below the: *extension factor* x current principal amount	Original maturity date
	Extension election period has not expired and security is trading above the: *extension factor* x current principal amount	Extension maturity date
	Extension election period has expired	Original maturity date
(iii) *Retractable debt security*	*Retraction election period* has not expired and security is trading at or above the: *retraction factor* x current principal amount	Original maturity date
	Retraction election period has not expired and security is trading below the: *retraction factor* x current principal amount	Retraction maturity date
	Retraction election period has expired	Original maturity date

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5671. Offsets involving Canadian government debt or Canadian listed equity securities and futures and forward contracts

(1) Where a *Dealer Member* or client account has a position in bonds, debentures or treasury bills issued or guaranteed by the Government of Canada or in *equity securities* listed on the Toronto Stock Exchange and the account has an offsetting futures or forward contract position on the same security, the positions may be offset and the minimum margin required for the positions may be computed with respect to the net long or net short position only.

5672. – 5679. Reserved.

OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS

SWAP POSITIONS

5680. Offset involving two interest rate swaps

(1) Where a *Dealer Member:*

(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar fixed (or floating) interest rate amounts calculated with reference to a notional amount,

and

(ii) is a party to another offsetting *interest rate swap* entitling it to receive (or requiring it to pay) a fixed (or floating) interest rate amount calculated with reference to the same notional amount, denominated in the same currency and within the same *maturity band* for margin purposes as the *interest rate swap* referred to in clause 5680(1)(i),

the two positions in clauses 5680(1)(i) and 5680(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the *fixed interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *fixed interest rate* receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

5681. Offsets involving interest rate swaps and federal government debt securities

(1) **Offset involving fixed interest rate swap component and federal government debt securities** - Where a *Dealer Member:*

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(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *fixed interest rate* amounts calculated with reference to a notional amount,

and

(ii) holds a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt securities* described in category (i) of subsection 5210(1) with a principal amount equal to and denominated in the same currency as the notional amount of the *interest rate swap* and with a *term to maturity* that is within the same *maturity band* for margin purposes as the *interest rate swap*,

the two positions in clauses 5681(1)(i) and 5681(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position. Any margin requirement calculated for the separate *floating interest rate* receipt (or payment) component position will continue to be required unless that position separately qualifies for the offset set out in subsection 5681(2).

(2) **Offset involving floating interest rate swap component and federal government debt securities -** Where a *Dealer Member:*

(i) is a party to an *interest rate swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *floating interest rate* amounts calculated with reference to a notional amount,

and

(ii) holds a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt security* described in category (i) of subsection 5210(1), maturing within one year with a principal amount equal to and denominated in the same currency as the notional amount of the swap,

the two positions in clauses 5681(2)(i) and 5681(2)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* in respect of the positions. Any margin requirement calculated for the separate *fixed interest rate* receipt (or payment) component position will continue to be required unless that position qualifies for the offset set out in subsection 5681(1).

5682. Offsets involving total performance swaps and underlying securities

(1) **Offset involving two total performance swaps** - Where a *Dealer Member*:

(i) is a party to a *total performance swap* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

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and

(ii) is a party to another *total performance swap* entitling it to receive (or requiring it to pay) amounts calculated based on the performance of the same *underlying security* or basket of securities, with reference to the same notional amount and denominated in the same currency,

the two positions in clauses 5682(1)(i) and 5682(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the performance payment (or receipt) component position may only be offset against the *normal margin required* on the performance receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

(2) **Offset involving short total performance swap component position and long underlying security position -** Where a *Dealer Member*:

(i) is a party to a *total performance swap* requiring it to pay amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

and

(ii) holds long an *equivalent quantity* of the same *underlying security* or basket of securities,

the two positions in clauses 5682(2)(i) and 5682(2)(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) nil, where it can be demonstrated that sell-out risk relating to the offset has been mitigated:

(a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the sell-out price for the long position in the *underlying security* or basket of securities, or

(b) since, due to the features inherent in the long position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the long position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

or

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(iv) 20% of the *normal margin required* on the long position in the *underlying security* or basket of securities where sell-out risk relating to the offset has not been mitigated.

(3) **Offset involving long total performance swap component position and short underlying security position -** Where a *Dealer Member*:

(i) is a party to a *total performance swap* entitling it to receive amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, with reference to a notional amount,

and

(ii) holds short an *equivalent quantity* of the same *underlying security* or basket of securities,

the two positions in clauses 5682(3)(i) and 5682(3)(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) nil, where it can be demonstrated that buy-in risk relating to the offset has been mitigated:

(a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the buy-in price for the short position in the *underlying security* or basket of securities, or

(b) since, due to the features inherent in the short position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the short position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

or

(iv) 20% of the *normal margin required* on the short position in the *underlying security* or basket of securities where buy-in risk relating to the offset has not been mitigated.

5683. – 5699. Reserved.

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RULE 5700

MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DERIVATIVE PRODUCTS

5701. Introduction

(1) Rule 5700 addresses the margin treatment of *derivative* product positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies. The *derivative* products covered in Rule 5700 include *exchange-traded options* whose underlying interests include:

- equities
- indexes
- *index participation units*
- debt
- currencies

and *over-the-counter options*, *futures contracts* and *futures contract options*.

(2) The order of subjects in Rule 5700 is:

(i) general requirements and summary reference tables [sections 5710 through 5715],

(ii) *exchange-traded options,*

(a) unhedged *option* positions [sections 5720 through 5721],

(b) hedged *option* positions [section 5725],

(c) *option* spreads and combinations [sections 5730 through 5740],

(d) security and *option* combinations and conversions [sections 5750 through 5755],

(e) futures and *options* combinations and conversions [sections 5760 through 5765],

(f) basket, participation unit and futures combinations [sections 5770 through 5772], and

(g) cross index offsets and the optional use of the Standard Portfolio Analysis methodology [sections 5775 and 5776],

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(iii) *over-the-counter options* [section 5780], and

(iv) *futures contracts* and *futures contract options* [section 5790].

5702. - 5709. Reserved.

GENERAL REQUIREMENTS AND SUMMARY REFERENCE TABLES

5710. Agreement and account requirements

(1) A *Dealer Member* writing *exchange-traded options* on behalf of a client must:

(i) do so in a margin account and must have and maintain a written margin account agreement, or

(ii) for registered accounts that may engage in certain trades involving *exchange-traded options*, have and maintain a written account agreement defining the rights and obligations between them relating to transacting in *exchange-traded options.*

(2) A *Dealer Member* writing *over-the-counter options* on behalf of a client must do so in a margin account.

(3) A *Dealer Member* writing and issuing or guaranteeing *over-the-counter options* on behalf of a client must either:

(i) have and maintain with that client a separate written margin agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*, or

(ii) have and maintain with that client a supplementary *over-the-counter options* agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*.

5711. Requirement to calculate and obtain margin from clients

(1) A *Dealer Member* must calculate and obtain minimum *client margin* from clients with *option* positions according to the following:

(i) all open written transactions and resulting short positions must be carried in a margin account,

(ii) each *option* must be margined separately and:

(a) for equity, *index participation unit,* debt or currency *options*, any difference between the market price of the *underlying interest*, or

(b) for *index options*, any difference between the current value of the *index,*

and the *exercise price* of the *option* has value only in providing the amount of margin required on that particular *option*.

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5712. Requirements for option offset strategies

(1) For all client account *option* offset strategies involving both short *option* and long *option* positions, the short option position must expire on or before the date of expiry of the long *option* position.

(2) For *Dealer Member* account *option* offset strategies involving *index option* and i*ndex participation unit option* combinations included in subsection 5730(1), the short option position must expire on or before the date of expiry of the long *option* position.

5713. Imposition of special margin requirements

(1) *IIROC* may impose special margin requirements on particular *options* or *options* positions.

5714. Treatment of option positions issued by different clearing corporations

(1) If a *Dealer Member* account or a client account holds *options* issued by the Canadian Derivatives Clearing Corporation and *options* issued by the Options Clearing Corporation, with the same *underlying interest*, they may be treated as being equivalent when calculating margin for the account.

5715. Summary reference tables of common strategies

(1) The following reference list summarizes the margin requirements for unhedged positions in *exchange-traded options:*

(i) long *call option* - 5720,

(ii) long *put option* - 5720,

(iii) short *call option* - 5721, and

(iv) short *put option* - 5721.

(2) The following reference table summarizes the most common reduced margin offset strategies available involving *exchange-traded options:*

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	Short underlying interest	**Short call option**	**Long put option**	**Short call option and long put option**
Long underlying interest	offset available for long and short positions in same security	long *underlying interest* / short call combination - 5750(1)(i)	long *underlying interest* / long *put option* contract combination - 5751(1)(i)	conversion or long tripo - 5754(1)(i)
Long call option	short *underlying interest* / long *call option* contract combination - 5752(1)(i)	*call option* spread - 5730(1)(i)	long *call option* / long *put option* spread - 5732(1)(i)	long *call option* / short *call option* / long *put option* combination - 5733(1)(i)
Short put option	short *underlying interest* / short put combination - 5753(1)(i)	short *call option* / short *put option* spread - 5731(1)(i)	*put option* spread - 5730(1)(i)	
Long call option and short put option	reconversion or short tripo - 5755(1)(i)			

(3) Other reduced margin offset strategies available involving *exchange-traded options* are as follows:

(i) *option* positions hedged by *escrow receipts* or letters of *guarantee* - 5725,

(ii) long warrant - short call offset - 5734,

(iii) box spread - 5735, and

(iv) butterfly, iron butterfly and iron condor spreads – 5736 through 5740.

(4) The following reference table summarizes additional reduced margin offset strategies available involving *qualifying baskets of index securities*, *index participation units*, *index options* and *index participation unit options:*

	Short qualifying basket of index securities	**Short index participation units**	**Short index or index participation unit call options**	**Long index or index participation unit put options**	**Short and long respectively index or index participation unit call and put options**
Long qualifying basket of index securities	offset available for long and short positions in same index product	long basket - short *index participation units* - 5770(1)(i)	long basket - short call combination - 5750(1)(ii) and 5750(1)(iii)	long basket - long put combination - 5751(1)(ii) and 5751(1)(iii)	long tripo or conversion - 5754(1)(ii) and 5754(1)(iii)
Long index participation units	short basket - long *index participation units* - 5771(1)(i)	offset available for long and short positions in same index product	long *index participation units* - short call combination - 5750(1)(iv) and 5750(1)(v)	long *index participation units* - long put combination - 5751(1)(iv) and 5751(1)(v)	long tripo or conversion - 5754(1)(iv) and 5754(1)(v)
Long index or index participation unit call options	short basket - long call combination - 5752(1)(ii) and 5752(1)(iii)	short *index participation unit* - long call combination - 5752(1)(iv) and 5752(1)(v)	**Refer to table in subsection 5715(2)**		
Short index or index participation unit put options	short basket - short put combination - 5753(1)(ii) and 5753(1)(iii)	short *index participation unit* - short put combination - 5753(1)(iv) and 5753(1)(v)			
Long and short respectively index or index participation unit call and put options	short tripo or reconversion - 5755(1)(ii) and 5755(1)(iii)	short tripo or reconversion - 5755(1)(iv) and 5755(1)(v)			

(5) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *index options* and *index participation unit options:*

	Short index futures contract	**Short index or index participation unit call options**	**Long index or index participation unit put options**	**Short and long respectively index or index participation unit call and put options**
Long index futures contract	same contract month - margin computed in respect to the net long or net short position only different contract months - refer to requirements on exchange on which the contract trades	Short calls - long *index futures contracts* - 5760(1)(i) and 5760(1)(ii)	Long puts - long *index futures contracts* - 5761(1)(i) and 5761(1)(ii)	Futures conversion or long tripo - 5764(1)(i) and 5764(1)(ii)
Long index or index participation unit call options	Long calls - short *index futures contracts* - 5762(1)(i) and 5762(1)(ii)	**Refer to table in subsection 5715(2)**		
Short index or index participation unit put options	Short puts - short *index futures contracts* - 5763(1)(i) and 5763(1)(ii)			
Long and short respectively index or index participation unit call and put options	Futures reconversion or short tripo - 5765(1)(i) and 5765(1)(ii)			

(6) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *qualifying baskets of index securities* and *index participation units*:

	Short qualifying basket of index securities	**Short index participation units**	**Short index futures contracts**
Long qualifying basket of index securities	**Refer to table in subsection 5715(4)**		Long *qualifying basket of index securities* - Short *index futures contracts* - 5772(1)(i)

Long index participation units			Long *index participation units* - short *index futures contracts* - 5772(1)(ii)
Long index futures contracts	Short *qualifying basket of index securities* - long *index futures contracts* - 5772(1)(i)	Short *index participation units* - long *index futures contracts* - 5772(1)(ii)	**Refer to table in subsection 5715(5)**

(7) Other reduced margin offset strategies available involving any combination of *qualifying baskets of index securities, index participation units, index options, index participation unit options* and *index futures contracts* are as follows:

(i) long *qualifying basket of index securities* - short *index participation unit call options - commitment* to purchase *index participation units* (*Dealer Member* only) - 5550,

(ii) long *qualifying basket of index securities* - long *index participation unit put options - commitment* to purchase *index participation units* (*Dealer Member* only) - 5551, and

(iii) long *qualifying basket of index securities* - short *index participation units - commitment* to purchase *index participation units* (*Dealer Member* only) - 5552.

5716. - 5719. Reserved.

EXCHANGE-TRADED OPTIONS - UNHEDGED OPTION POSITIONS

5720. Long option positions

(1) Subject to subsection 5720(2), the minimum *Dealer Member inventory margin* and *client account margin* required for long *exchange-traded option* positions is the sum of:

(i) the lesser of:

(a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(I) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(II) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(III) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

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(IV) for currency *options*, *IIROC's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

and

(b) the *option's in-the-money* amount, if any,

plus

(ii) where the period to expiry is greater or equal to nine months, 50% of the *option's time value*, 100% of the *option's time value* otherwise.

(2) If the position in subsection 5720(1) is a long *call option* on an equity that is the subject of a legal and binding cash take-over bid for which all conditions have been met, the margin required on that *call option* is:

(i) the *market value* of the *call option*,

minus

(ii) the excess, if any, of the amount offered over the *exercise value* of the *call option*.

If the take-over bid is made for less than 100% of the issued and outstanding securities, the margin requirement must be applied pro rata in the same proportion as the offer, and subsection 5720(1) applies to the balance.

5721. Short option positions

(1) Subject to subsection 5721(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *exchange-traded option* positions is:

(i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(a) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(b) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(c) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

(d) for currency *options*, *IIROC's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

minus

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(ii) any *out-of-the-money* amount associated with the *option*.

(2) Subsection 5721(1) notwithstanding, the minimum *client account margin* required for short *exchange-traded option* positions shall be the amount determined by multiplying:

(i) in the case of a short *call option* position, the *market value* of the *underlying interest*,

(ii) in the case of a short *put option* position, the *aggregate exercise value* of the *option*,

by

(iii) one of the following percentages:

(a) for equity *options*, 5.00%,

(b) for *index options* or *index participation unit options*, 2.00%,

(c) for debt *options*, 1.00%,

(d) for currency *options*, 0.75%.

5722. - 5724. Reserved.

EXCHANGE-TRADED OPTIONS - HEDGED OPTION POSITIONS

5725. Hedged option positions

(1) No margin is required for the following *exchange-traded option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	Exchange-traded option position		**Acceptable collateral**
(i)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of the *underlying security*
(ii)	Short *put option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of government securities
(iii)	Short *put option* with an equity, *index*, *index*	and	letter of *guarantee*

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participation unit, debt or currency *underlying interest*

provided the conditions in subsections 5725(2) and 5725(3) are met.

(2) For an *escrow receipt* to be acceptable collateral in subsection 5725(1):

(i) the issuer of the *escrow receipt* must be a financial institution approved by the *clearing corporation*,

and

(ii) all *clearing corporation* agreements must be signed and delivered to the *clearing corporation* and available for inspection by *IIROC* on request,

and

(iii) in the case of an *escrow receipt* evidencing the deposit of government securities, the securities must:

(a) be acceptable forms of *clearing corporation* margin,

(b) mature within one year of their deposit, and

(c) have a *market value* of greater than 110% of the *aggregate exercise value* of the short *put option*.

(3) For a letter of *guarantee* to be acceptable collateral in subsection 5725(1):

(i) the issuer must be:

(a) a financial institution approved by the *clearing corporation* to issue *escrow receipts*,

and

(b) a *chartered bank*, a Québec savings bank or a trust company licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000,

and

(ii) the letter must certify that the bank or trust company:

(a) holds on deposit for the client's account cash equal to the full *aggregate exercise value* of the *put option* and that amount will be paid to the *clearing corporation* against delivery of the *underlying interest* hedged by the *put option*,

or

(b) unconditionally and irrevocably guarantees to pay the *clearing corporation* the full amount of the *aggregate exercise value* of

the *put option* against delivery of the *underlying interest* hedged by the *put option*,

and

(iii) the *Dealer Member* must deliver it to the *clearing corporation* and the *clearing corporation* must accept it as margin.

5726. - 5729. Reserved.

5730. Call option spreads and put option spreads

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Long (short) option position		**Short (long) option position**
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*put option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(iii)	*index call option*	and	*index participation unit call option* based on the same *index*
(iv)	*index put option*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5730(2).

(2) Provided the condition in subsection 5730(1) is met, the minimum margin required is the lesser of:

(i) the margin required on the short *option* position determined pursuant to section 5721,

or

(ii) the greater of:

(a) the spread loss amount, if any, that would result if both *options* were exercised,

and

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(b) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position.

5731. Short call option - short put option spread

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Short option position		**Short option position**
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*index call option*	and	*index participation unit put option* based on the same *index*
(iii)	*index participation unit call option*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5731(2).

(2) The minimum margin required is the greatest of:

(i) the greater of:

(a) the margin required on the *call option* position,

or

(b) the margin required on the *put option* position,

and

(ii) the excess of the *aggregate exercise value* of the *put option* position over the *aggregate exercise value* of the *call option* position,

and

(iii) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position.

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5732. Long call option - long put option spread

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

	Long option position		**Long option position**
(i)	*call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*index call option*	and	*index participation unit put option* based on the same *index*
(iii)	*index participation unit call option*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5732(2).

(2) The minimum margin required is the lesser of:

(i) the sum of:

(a) the margin required for the long *call option* position,

plus

(b) the margin required for the long *put option* position,

or

(ii) the sum of:

(a) 100% of the *market value* of the long *call option*,

plus

(b) 100% of the *market value* of the long *put option*,

minus

(c) the amount by which the *aggregate exercise value* of the *put option* exceeds the *aggregate exercise value* of the *call option*.

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5733. Long call option - short call option - long put option

(1) Where a *Dealer Member* inventory or client account contains long *call option*, short *call option* and long *put option* positions in *exchange-traded options* on the same *underlying interest* and *equivalent quantities* of each position in the combination are held, the minimum margin required is:

(i) 100% of the *market value* of the long *call option*,

plus

(ii) 100% of the *market value* of the long *put option*,

minus

(iii) 100% of the *market value* of the short *call option*,

plus

(iv) the greater of:

(a) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the short *call option*, and

(b) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the long *put option*.

Where the amount calculated in clause 5733(1)(iv) is negative, this amount may be applied against the margin charge.

5734. Long warrant - short call option

(1) Where a *Dealer Member* inventory or client account contains long warrant and short call *exchange-traded option* positions on the same *underlying interest* and *equivalent quantities* of each position in the pairing are held, the minimum margin required is the sum of:

(i) the lesser of:

(a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(I) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5311,

(II) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

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(III) for debt *options*, the margin rate used for the *underlying interest* as determined in section 5210,

(IV) for currency *options*, *IIROC's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

or

(b) the spread loss amount, if any, that would result if both the *option* and the warrant were exercised,

and

(ii) the excess of the *market value* of the warrant over the *in-the-money* value of the warrant multiplied by 25%,

and

(iii) the *in-the-money* value of the warrant, multiplied by:

(a) 50%, where the expiration date of the warrant is 9 months or more away, or

(b) 100%, where the expiration date of the warrant is fewer than 9 months away.

5735. Box spread

(1) **Client account requirement -** Where a client account contains a box spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that the client holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *client account margin* required is the lesser of:

(i) the greater of the margin requirements calculated for the component call and put spreads pursuant to subsection 5730(2), and

(ii) the greater of the *out-of-the-money* amounts calculated for the component call and put spreads.

(2) **Dealer Member inventory account requirement -** Where a *Dealer Member* inventory account contains a box spread *exchange-traded option* combination on the same *underlying interest* with all *options* expiring at the same time, such that the *Dealer Member* holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *Dealer Member inventory margin* required is the sum of:

(i) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* and the *aggregate exercise value* of the long *put options*, and

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(ii) the net *market value* of the *options*.

5736. Long butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a long butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that short positions in two *call options* (or *put options*) are held and the short *call options* (or short *put options*) are at a middle *exercise price* and are flanked on either side by a long *call option* (or long *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the net *market value* of the short and long *call options* (or *put options*).

5737. Short butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a short butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that long positions in two *call options* (or *put options*) are held and the long *call options* (or long *put options*) are at a middle *exercise price* and are flanked on either side by a short *call option* (or short *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the amount, if any, by which the exercise value of the long *call options* (or long *put options*) exceeds the exercise value of the short *call options* (or short *put options*).

5738. Long condor spread

(1) Where a *Dealer Member* inventory or client account contains a long condor spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order and the interval between the *exercise prices* is equal, comprising a short position in two *call options* (or *put options*) and the short *call options* (or short *put options*) are flanked on either side by a long *call option* (or long *put option*) having a lower and higher *exercise price* respectively, the minimum margin required is the net *market value* of the short and long *call options* (or *put options*).

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5739. Short iron butterfly spread

(1) Where a *Dealer Member* inventory or client account contains a short iron butterfly spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put option* with the same *exercise price* and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

5740. Short iron condor spread

(1) Where a client account contains a short iron condor spread combination on the same *underlying interest* with all *exchange-traded option*s expiring at the same time, such that a client holds four separate *options* series wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put option* and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

5741. - 5749. Reserved.

EXCHANGE-TRADED OPTIONS - SECURITY AND OPTION COMBINATIONS AND CONVERSIONS

5750. Long underlying interest or convertible security - short call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Long position		**Short option position**
(i)	*underlying interest* or *currently convertible security*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on

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			the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5750(2).

(2) Subject to additional margin requirements set out in subsections 5750(3) through 5750(5), the minimum margin required is the lesser of:

(i) the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position,

and

(ii) any excess of the *aggregate exercise value* of the *call options* over the normal *loan value* of the *underlying interest*, *index* basket or *index participation unit* position.

(3) Where the combination involves a *currently convertible security* position, additional margin is required to be provided in the amount of the *conversion loss*.

(4) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

(5) Where the combination involves either:

(i) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(ii) an *index participation unit* position and an *index option* position,

additional margin is required to be provided in the amount of the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

5751. Long underlying interest - long put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

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	Long position		**Long option position**
(i)	*underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5751(2).

(2) Subject to additional margin requirements set out in subsection 5751(3), the minimum margin required is the greater of:

(i) lesser of:

(a) the *normal margin required* on the *underlying interest*,

or

(b) the excess of the combined *market value* of the *underlying interest* and the *put option* over the *aggregate exercise value* of the *put option*,

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position

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held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5752. Short underlying interest - long call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		**Long option position**
(i)	*underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5752(2).

(2) Subject to additional margin requirements set out in subsection 5752(3), the minimum margin required is the sum of:

(i) 100% of the *market value* of the long *call option*,

plus

(ii) the greater of:

(a) the lesser of:

(I) any *out-of-the-money* value associated with the *call option*,

or

(II) the *normal margin required* on the *underlying interest*,

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(b) where the combination involves:

(I) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(II) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units underlying* the *index participation unit option* position or *index participation unit* position held,

minus

(iii) where the *call option* is *in-the-money*, the *in-the-money* value, provided the overall margin requirement cannot be reduced to less than zero.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* multiplied by the *market value* of the basket.

5753. Short underlying interest - short put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		**Short option position**
(i)	*underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5753(2).

(2) Subject to additional margin requirements set out in subsection 5753(3), the minimum margin required is the greater of:

(i) the lesser of:

(a) the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position, and

(b) any excess of the *normal margin required* on the *underlying interest*, *index* basket or *index participation unit* position over the *in-the-money* value, if any, of the *put options*,

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5754. Conversion or long tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Long position		**Long option position**		**Short option position**
(i)	*underlying interest*	and	*put option* with the same *underlying interest*	and	*call option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*
(iii)	*qualifying basket of index*	and	*index participation unit put*	and	*index participation unit call*

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	securities		*option* based on the same *index*		*option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit put option* based on the same *index*	and	*index participation unit call option* based on the same *index*
(v)	*index participation unit*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5754(2).

(2) Subject to additional margin requirements set out in subsection 5754(3), the minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *put options*,

minus

(b) 100% of the *market value* of the short *call options*,

plus

(c) the difference, plus or minus, between the *market value* of the *underlying interest*, *index* basket or *index participation unit* position and the *aggregate exercise value* of the long *put options* or short *call options*, whichever is lower,

and

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

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(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5755. Reconversion or short tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* and security combinations:

	Short position		**Long option position**		**Short option position**
(i)	*underlying interest*	and	*call option* with the same *underlying interest*	and	*put option* with the same *underlying interest*
(ii)	*qualifying basket of index securities*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*
(iii)	*qualifying basket of index securities*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*
(iv)	*index participation unit*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*
(v)	*index participation unit*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5755(2).

(2) Subject to additional margin requirements set out in subsection 5755(3), the minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *call options*,

minus

(b) 100% of the *market value* of the short *put options*,

plus

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(c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher and the *market value* of the *underlying interest*, *index* basket or *index participation unit* position,

and

(ii) where the combination involves:

(a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

***5756. - 5759.* Reserved.**

EXCHANGE-TRADED OPTIONS - FUTURES AND OPTIONS COMBINATIONS AND CONVERSIONS

5760. Long index futures contract - short call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		**Short option position**
(i)	*index futures contracts*	and	*index call option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in

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accordance with subsection 5760(2).

(2) The minimum margin required is the greater of:

(i) (a) the *normal margin required* on the *index futures contract* position,

minus

(b) the *aggregate market value* of the short *call options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

5761. Long futures contracts - long put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		**Long option position**
(i)	*index futures contracts*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5761(2) and 5761(3).

(2) Where the *put option* position is *out-of-the-money*, the minimum margin required is the greater of:

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(i) the sum of:

(a) the *aggregate market value* of the long *put options*

plus

(b) the lesser of:

(I) (A) the daily settlement value of the *index futures contract* position,

minus

(B) the *aggregate exercise value* of the long *put options,*

(II) the margin required on the long *futures contract* position,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

(3) Where the *put option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

(i) any excess of the *aggregate market value* of the long *put options* over the *aggregate in-the-money* amount of the long *put options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities or* the *index participation units*.

5762. Short futures contracts - long call option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		**Long option position**
(i)	*index futures contracts*	and	*index call option* based on the same *index*

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(ii) *index futures contracts* and *index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5762(2) and 5762(3).

(2) Where the *call option* position is *out-of-the-money*, the minimum margin required is the greater of:

(i) the sum of:

(a) the *aggregate market value* of the long *call options*

plus

(b) the lesser of:

(I) (A) the *aggregate exercise value* of the long *call options*,

minus

(B) the daily settlement value of the *index futures contract* position,

(II) the margin required on the short *futures contract* position,

and

(ii) the published *tracking error margin rate* for the spread between the *index* future contracts and the related *index* or the *index* future contracts and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

(3) Where the *call option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

(i) any excess of the *aggregate market value* of the long *call options* over the *aggregate in-the-money* amount of the long *call options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures*

contracts and the related *index participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities or* the *index participation units*.

5763. Short futures contracts - short put option combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		**Short option position**
(i)	*index futures contracts*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5763(2).

(2) The minimum margin required is the greater of:

(i) (a) the *normal margin required* on the *index futures contract* position,

minus

(b) the *aggregate market value* of the short *put options*,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

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5764. Futures conversion or long tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Long futures position		**Long option position**		**Short option position**
(i)	*index futures contracts*	and	*index put option* based on the same *index*	and	*index call option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit put option* based on the same *index*	and	*index participation unit call option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contract*s have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5764(2).

(2) The minimum margin required is the greater of:

(i) the sum of:

(a) the *aggregate market value* of the long *call options*,

minus

(b) the *aggregate market value* of the short *put options*,

plus

(c) the difference, plus or minus, between the daily settlement value of the long *futures contract*s and the *aggregate exercise value* of the long *put options* or the short *call options*, whichever is lower,

and

(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

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5765. Reconversion or short tripo combination

(1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	Short futures position		**Long option position**		**Short option position**
(i)	*index futures contracts*	and	*index call option* based on the same *index*	and	*index put option* based on the same *index*
(ii)	*index futures contracts*	and	*index participation unit call option* based on the same *index*	and	*index participation unit put option* based on the same *index*

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5765(2).

(2) The minimum margin required is the greater of:

(i) the sum of:

(a) 100% of the *market value* of the long *call options*,

minus

(b) 100% of the *market value* of the short *put options*,

plus

(c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher, and the daily settlement value of the short *futures contracts*,

and

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(ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

***5766. - 5769.* Reserved.**

EXCHANGE-TRADED OPTIONS - BASKET, PARTICIPATION UNIT AND FUTURES COMBINATIONS

5770. Long qualifying basket of index securities - short index participation units

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long position		Short position
(i)	*qualifying basket of index securities*	and	*index participation units* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5770(2).

(2) The minimum margin required shall be the sum of:

(i) the published *tracking error margin rate*,

plus

(ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*,

multiplied by the *market value* of the *index participation units*.

5771. Long index participation units - short qualifying basket of index securities

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long position		Short position
(i)	*index participation units*	and	*qualifying basket of index securities* of the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5771(2).

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(2) The minimum margin required shall be the sum of:

(i) the published *tracking error margin rate*, unless the long *index participation units* position is of size sufficient to be converted into a basket of *index* securities or a multiple thereof,

plus

(ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by the *market value* of the *index participation units*.

5772. Index futures contracts - qualifying baskets of index securities or index participation units

(1) Where a *Dealer Member* inventory or client account contains the following combination:

	Long (short) futures position		**Short (long) position**
(i)	*index futures contracts*	and	*qualifying basket of index securities* of the same *index*
(ii)	*index futures contracts*	and	*index participation units* based on the same *index*

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5772(2).

(2) Subject to additional margin requirements set out in subsection 5772(3), the minimum margin required shall be the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities or* the *index participation units* held.

(3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

5773. - 5774. Reserved.

EXCHANGE-TRADED OPTIONS - CROSS INDEX OFFSETS AND THE OPTIONAL USE OF THE STANDARD PORTFOLIO ANALYSIS METHODOLOGY

5775. Cross index offset combinations involving index products

(1) Offsets involving products based on two different indices are permitted provided:

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(i) both indices qualify as an *index* as defined in subsection 5130(9),

(ii) there is significant performance correlation between the indices, and

(iii) *IIROC* has made available a published *tracking error margin rate* for cross *index* offsets involving the two indices.

Where offsets involving products based on two different indices are permitted the margin requirements set out in sections 5730 through 5772 may be used provided that any margin requirement calculated shall be no less than the published *tracking error margin rate* for cross *index* offsets involving the two indices.

5776. Optional use of the Standard Portfolio Analysis methodology

(1) For a *Dealer Member* inventory account constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.

If the *Dealer Member* selects the Standard Portfolio Analysis methodology, the margin requirements calculated under this methodology will supersede the requirements stipulated in these Rules.

IIROC may restrict the application of this section 5776, if it considers continued use of the Standard Portfolio Analysis methodology to be inappropriate for *Dealer Member* margin requirements.

5777. - 5779. Reserved.

OVER-THE-COUNTER OPTIONS

5780. Long option positions

(1) The minimum *Dealer Member inventory margin* required for long *over-the-counter option* positions is:

(i) where the option's market price is less than $1.00, the *market value* of the option,

(ii) where the option's market price is $1.00 or more, and:

(a) the option is a *call option*, the *market value* of the *call option* less 50% of any excess of the *market value* of the *underlying interest* over the *aggregate exercise value* of the *call option*, or

(b) the option is a *put option*, the *market value* of the *put option* less 50% of any excess of the *aggregate exercise value* of the *put option* over the *market value* of the *underlying interest*.

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(2) The minimum *client account margin* required for long *over-the-counter option* positions is the *market value* of the option.

5781. Short option positions

(1) Subject to subsection 5781(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *over-the-counter option* positions is:

(i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:

(a) for debt *options*, the margin rate used for the *underlying interest* as determined in sections 5210 through 5241,

(b) for equity *options*, the margin rate used for the *underlying interest* as determined in section 5310 through 5315,

(cx) for *index option*s or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,

(d) for currency *options*, *IIROC's* published spot risk margin rate for the currency calculated according to the formula set out in section 5460 through 5469,

minus

(ii) any *out-of-the-money* amount associated with the option.

(2) Subsection 5781(1) notwithstanding, the minimum *client account margin* required for short *over-the-counter option* positions shall be no less than the amount determined by multiplying:

(i) in the case of a short *call option* position, the *market value* of the *underlying interest*,

(ii) in the case of a short *put option* position, the *aggregate exercise value* of the option,

by 25% of the margin rate used for the *underlying interest*.

5782. Hedged option positions

(1) No margin is required for the following *over-the-counter option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

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	Over-the-counter option position		Acceptable collateral
(i)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of the *underlying security*
(ii)	Short *call option* with an equity, *index*, *index participation unit*, debt or currency *underlying interest*	and	*escrow receipt* evidencing the deposit of government securities

provided the conditions in subsection 5782(2) are met.

(2) For an *escrow receipt* to be acceptable collateral in subsection 5782(1) the issuer of the *escrow receipt* must be a financial institution approved by an *acceptable clearing corporation*.

(3) The requirements of this section 5782 apply, regardless of any otherwise available margin reduction or margin offset, in the following circumstance:

(i) where an *over-the-counter option* is written by a client that is not an *acceptable institution*, *acceptable counterparty* or *regulated entity*,

(ii) where the terms of the *over-the-counter option* require settlement by physical delivery of the *underlying interest*, and

(iii) where a margin rate less than 100% for the *underlying interest* has not been established under the *IIROC requirements*.

5783. Option spreads and combinations

(1) Except as otherwise provided in this section 5783, the same reduced margin offsets are permitted for *over-the-counter options* as are provided in sections 5730 through 5772 for *exchange-traded options*, provided that the *underlying interest* is the same.

(2) In the case of spreads involving European exercise *over-the-counter options*:

(i) a margin offset is permitted where the spread consists of long and short European exercise option contracts with the same expiration date, and

(ii) a margin offset is permitted where the spread consists of a short European exercise option and long American exercise option, however

(iii) a margin offset is not permitted where the spread consists of a long European exercise option and a short American exercise option.

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5784. Confirmation, delivery and exercise

(1) The *Dealer Member* must confirm every *over-the-counter option* transaction in writing, by mail or delivery, on trade date.

(2) *Over-the-counter option* contract payments, settlement, exercise and delivery must be made according to the terms of the *over-the-counter option* contract.

5785. - 5789. Reserved.

FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

5790. Minimum margin requirements

(1) Where a *Dealer Member* inventory or client account contains positions in *futures contracts* or *futures contract options*, the margin required is the greatest of:

(i) the margin required by the commodity futures exchange on which the contract is entered into,

(ii) the margin required by the *clearing corporation*, and

(iii) the margin required by the *Dealer Member's* clearing broker, where applicable.

provided that where a *Dealer Member* or a client owns a commodity and such ownership is evidenced by warehouse receipts or comparable documentation and such *Dealer Member* or client also has a short position in *futures contracts* in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position only.

(2) Where a commodity futures exchange or its *clearing corporation* prescribes margin requirements based on initial and maintenance rates, the margin required at the time the contract is entered shall be based on the prescribed initial rate. When subsequent adverse price movements in the value of the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate amount shall be required. The *Dealer Member* may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.

(3) Where client trades are executed through an omnibus account, the *Dealer Member* shall require margin from each of its clients as though the trades were executed in separate fully disclosed accounts.

(4) Where spread margins are permitted in a client account, the *Dealer Member* shall note this in the margin records for this account.

(5) Where a *Dealer Member's* inventory account holds inter-commodity spreads in Government of Canada bond *futures contracts* and U.S.

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treasury bond *futures contracts* traded on *acceptable exchanges* in Canada and the United States and *equivalent quantities* of each position in the spread are held, the margin required is the greater of the margin required on either the long side or the short side only. For this purpose, the foregoing spreads shall be on the basis of $1.00 Canadian for each $1.00 U.S. of the contract size of the relevant *futures contracts*. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States Commodity Exchange Act.

(6) *IIROC* may prescribe, in its discretion, higher or lower margin requirements for any account or *person* that holds positions in *futures contracts* or *futures contract options*.

5791. - 5799. Reserved.

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RULE 5800

ACCOUNT RELATED AGREEMENTS

5801. Introduction

(1) Rule 5800 sets out the specific *Dealer Member* requirements for the following account related agreements:

(i) *IIROC* standard agreements [section 5810],

(ii) account *guarantee* agreements [sections 5820 through 5825],

(iii) hedge agreements [section 5830],

(iv) cash and securities loan agreements [section 5840], and

(v) *repurchase agreements* and *reverse repurchase agreements* [section 5850].

5802. - 5809. Reserved.

5810. IIROC standard agreements

(1) *IIROC* prescribes certain contents for and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment, or avoid capital penalties, under Rules 5200 through 5900. These agreements are described in sections 5820 through 5850 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on *IIROC's* website are provided as agreement forms acceptable to *IIROC*.

5811. - 5819. Reserved.

5820. General account guarantee requirements

(1) Subject to the requirements in sections 5821 and 5822, a *Dealer Member* may permit a client (the guarantor) to *guarantee* the accounts of another client provided:

(i) the *Dealer Member* informs the guarantor in writing of the initial contingent liability they will be assuming by signing the *guarantee* agreement,

(ii) the *Dealer Member* discloses to the guarantor in writing that the suitability of transactions in the guaranteed client's accounts will not be reviewed in relation to the guarantor,

(iii) the guarantor signs an approved written *guarantee* agreement with the *Dealer Member* that:

(a) identifies the guarantor by name,

(b) identifies the guarantor accounts that are to be used to provide the *guarantee*,

(c) identifies the accounts of the other client that are subject to the *guarantee*,

(d) binds the guarantor, its successors, assigns and personal legal representatives, and

(e) contains the minimum terms set out in subsection 5825(1),

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(iv) the guaranteed client consents in writing to the *Dealer Member* providing the guarantor, at least quarterly, with the guaranteed client's account statements, and

(v) where the guarantor does not object, the guarantor is sent, at least quarterly, the guaranteed client's account statements.

(2) Where the guaranteed client does not consent to providing account statements, the *Dealer Member* must notify the guarantor in writing of the guaranteed client's refusal and that the *guarantee* agreement will not be accepted for margin reduction purposes.

5821. Requirements for account guarantees by shareholders, Registered Representatives or employees

(1) Section 5820 notwithstanding, a *Dealer Member* may only permit clients who are shareholders, *Registered Representatives* or *employees* of the *Dealer Member* to *guarantee* the accounts of another client:

(i) if:

(a) *IIROC* expressly approves the *guarantee* arrangement in writing,

(b) the *guarantee* agreement can only be cancelled with *IIROC's* written approval,

(c) the guarantor is not permitted to transfer cash, securities or any other property from the accounts of the guarantor without written approval from *IIROC*,

(d) the provisions of Schedule 4 of Form 1 continue to apply to the guaranteed client accounts regardless of the *guarantee*. Specifically, if the account has been restricted and subsequently fully margined, the *Dealer Member* will not conduct any trading in the account without *IIROC* approving the release of the *guarantee*,

or

(ii) if, in the case of a shareholder *guarantee*:

(a) there is public ownership of the *Dealer Member* or *holding company* securities held by the shareholder,

(b) the shareholder is not an *employee*, *Registered Representative* or *Executive* of the *Dealer Member*, and

(c) the shareholder does not hold a *significant equity interest* (defined in clause 2102(1))of the *Dealer Member* or its *holding company*.

5822. Prohibited account guarantee arrangements

(1) A *Dealer Member* will not permit relief for *guarantees* in respect of accounts of *Executives*, *Directors*, shareholders, *Registered Representatives* or *employees*, by clients of the *Dealer Member*.

5823. Exception for immediate family

(1) Sections 5821 and 5822 do not apply to *guarantees* by members of the immediate family of the guaranteed account holder.

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5824. Margin relief for guarantee agreements

(1) For account *guarantee* agreements entered into in compliance with the requirements of sections 5820 and 5821, the margin required for a client account that is guaranteed by another client may be reduced by any aggregate excess margin in the account of the guarantor.

(2) Subsection 5824(1) notwithstanding, a *Dealer Member* may only use a client *guarantee* for margin relief with respect to client accounts directly guaranteed by the guarantor.

(3) Subsection 5824(1) notwithstanding, margin relief is not permitted where a *guarantee* agreement is not confirmed by the guarantor in response to an annual audit confirmation request in accordance with the requirements set out in subsection 4185(1).

5825. Account guarantee agreement minimum terms

(1) An approved written agreement must contain the following minimum terms:

(i) the guarantor is jointly and severally liable for the client's obligations in the identified accounts and unconditionally guarantees, on an absolute and continuing basis, the prompt payment on demand of all the client's present and future liabilities in those accounts to the *Dealer Member*,

(ii) the *guarantee's* termination requires written notice to the *Dealer Member* and the termination does not affect the *guarantee* of any obligations incurred prior to it,

(iii) the *Dealer Member* is not required to demand from, or proceed or exhaust its remedies against, a client or any other *person*, or any security held to secure payment of the obligations, before making demand or proceeding under the *guarantee*,

(iv) the guarantor's liability shall not be released, discharged, reduced, limited or otherwise affected by:

(a) any right of set-off, counterclaim, appropriation, application or other demand or right the client or guarantor may have,

(b) any irregularity, defect, or informality in any obligation, document or transaction relating to the client or its accounts,

(c) any acts done, omitted, suffered or permitted by the *Dealer Member* in connection with the client, its accounts, the guaranteed obligations or any other *guarantees* or security held including any renewals, extensions, waivers, releases, amendments, compromises or indulgences agreed to by the *Dealer Member* and including the *Dealer Member* providing the client's account statements to the guarantor as permitted in clause 5820(1)(iv), or

(d) the death, incapacity, bankruptcy or other fundamental change of or affecting the client,

but if the guarantor is released from the *guarantee*, it must remain liable as principal debtor of the guaranteed obligations,

(v) the guarantor must:

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(a) agree that the accounts as settled or stated between the *Dealer Member* and the client are conclusive as to the amounts owing, and

(b) agree not to exercise any rights of subrogation until all guaranteed obligations are paid in full, and

(vi) all securities, monies, *futures contracts* and *futures contract options*, foreign exchange contracts and other property held or carried by the *Dealer Member* for the guarantor must be pledged or a security interest granted in them to secure payment of the guaranteed obligations. The *Dealer Member* must be able to deal with those assets at any time, before or after demand under the *guarantee*, to satisfy payment.

5826. - 5829. Reserved.

5830. Hedge agreements

(1) In determining the margin relief available for a guaranteed client account pursuant to subsection 5824(1), a *Dealer Member* may exclude the following offsetting position hedges from the margin calculation:

	Long position		**Short position**
(i)	a long security position (other than an *option*, *futures contract* or foreign exchange contract position) held in the account of a guarantor that *guarantees* an account of another client of a *Dealer Member* in accordance with sections 5820 through 5825.	and	a short position in the same security, held in the guaranteed client account.
(ii)	a long *convertible security* position (including warrants, rights, shares and *installment receipts*) held in the account of a guarantor that *guarantees* an account of another client of a *Dealer Member* in	and	a short position in the *underlying security*, held in the guaranteed client account.

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accordance with sections 5820 through 5825.

(2) A *Dealer Member* must not accept a client account hedge for the purposes of subsection 5830(1), unless it obtains a written hedge agreement from the guarantor, in a form acceptable to *IIROC*, that:

(i) authorizes the *Dealer Member* to use any and all securities, other than *options*, *futures contracts* or foreign exchange contracts, held in long positions in the guarantor's account to hedge any and all short positions in the guaranteed client account to eliminate the margin required on those securities in the client account,

(ii) provides that if a security position that hedges a short position is sold and creates a margin deficiency in the guaranteed account, the guarantor agrees that the *Dealer Member* may restrict the guarantor's ability to withdraw cash or securities from its account or otherwise restrict the guarantor's ability to enter into transactions in that account until the deficiency has been rectified, and

(iii) provides that the guarantor agrees that the terms of the hedge agreement must remain in effect as long as any hedge positions between the two accounts remain in effect.

5831. - 5839. Reserved.

5840. Cash and securities loan agreements

(1) A cash and securities loan is the lending of securities for cash collateral or vice versa, other than an overnight cash loan.

(2) To avoid the margin penalties in Form 1 for cash and securities loan transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5840(3).

(3) This *written cash and securities loan agreement* must:

(i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

(4) If the parties agree to a secured loan as provided in sub-clause 5840(3)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must

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choose the method to achieve the highest priority in a default situation.

(5) Whether the parties rely on set off or agree to a secured loan as provided in clause 5840(3)(iv), the *written cash and securities loan agreement* must provide for the securities borrowed and loaned to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

5841. - 5849. Reserved.

5850. Repurchase agreements and reverse repurchase agreements

(1) To avoid the margin penalties in Form 1 for *repurchase agreement* and *reverse repurchase agreement* transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5850(2).

(2) A written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must:

(i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

(3) If the parties agree to the agreement as provided in sub-clause 5850(2)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 5850(2)(iv), the written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must provide for the sold or purchased securities to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

5851. - 5899. Reserved.

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RULE 5900

AGREEMENT RELATED MARGIN REQUIREMENTS

5901. Introduction

(1) The general margin requirements for call loan, cash and securities loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in Form 1. Rule 5900 sets out specific margin requirements that apply to securities loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission of other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

5902. Definitions

(1) The following term has the meaning set out below when used in the Rule:

"fixed rate"	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.

5903. Margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

(1) Despite any margin requirement set out in Form 1 regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
Unhedged position		
Securities loan, *repurchase agreement*, or *reverse repurchase agreement*	▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five *business days*, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction, ▪ the amount of any compensation, price differential, fee,	The minimum *Dealer Member inventory margin* required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for the security involved in the loan / agreement with a term to maturity that is equal to the remaining loan / agreement term,

	commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a *fixed rate*, and ▪ the *Dealer Member* must perform the calculations daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on securities used as collateral.	as set out in section 5210, by (ii) the loan / agreement market value.

(2) Despite any margin requirement set out in Form 1 regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions is as follows:

Position	Special conditions	Margin required
Offsetting positions		
Securities loan versus *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is less than one year** away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)
Securities loan versus *securities loan* **or** *Repurchase agreement* versus *reverse*	▪ the date of repurchase, resale, or termination of a loan **is greater than or equal to**	The minimum *Dealer Member inventory margin* required for any residual offset term risk shall be

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	repurchase agreement	**one year** away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	determined by multiplying: (i) the relevant margin rate for the securities involved in the loans / agreements with terms to maturity that are equal to the remaining loan / agreement terms, as set out in section 5210, by (ii) the net market value of the two loans / agreements.
5904. - 5999. Reserved.			
6000. – 6999. Reserved.			

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RULE 7100

DEBT MARKETS

7101. Introduction

(1) Rule 7100 establishes trading and settlement practices to promote fair and efficient *debt securities* markets. Unless expressly indicated, Rule 7100 makes no distinction between institutional and retail markets.

(2) For greater certainty, the provisions set forth in Rule 7100 shall not be construed to abrogate or derogate from any other provision of general applicability found elsewhere within *IIROC requirements*.

(3) Rule 7100 is divided into the following parts:

Part A - General

[sections 7102 and 7103]

Part B - Debt market trading

[sections 7104 through 7113]

Part A - GENERAL

7102. General requirements

(1) A *Dealer Member* must ensure that its trading in the *debt securities* markets does not contravene any *applicable laws*, regulation, direction, or requirement, whether or not such requirement is binding or has the force of law, including without limitation the directions or requirements of the Bank of Canada or the Department of Finance (Canada).

(2) A *Dealer Member* must not condone or knowingly facilitate conduct by its *affiliates*, clients, or counterparties that contravenes Rule 7100.

7103. Policies and procedures

(1) A *Dealer Member*'s policies and procedures must specifically address trading and conduct in the *debt securities* market to provide reasonable assurance of compliance with *securities laws* and *IIROC requirements*.

(2) A *Dealer Member*'s policies and procedures must specifically address the following items for the *debt securities* markets:

(i) restrictions of, and *controls* over, trading in *non-client accounts*,

(ii) a prohibition on the use of inside information,

(iii) a prohibition of front-running,

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(iv) standards for fair allocation of new issues among clients,

(v) standards for prompt and accurate disclosure to clients and counterparties if any conflict of interest arises, and

(vi) for *retail client* accounts:

(a) written policies or guidelines issued to its *Registered Representatives* on the *Dealer Member's* mark-ups, mark-downs and commissions on *debt securities* sold to clients or purchased from clients, and

(b) reasonable monitoring procedures to detect mark-ups, mark-downs or commissions that exceed the maximums specified by the *Dealer Member*, and to ensure any deviation is justified.

(3) An *Executive* responsible for the appropriate business group of the *Dealer Member* must approve the policies, procedures and *internal controls* referred to in section 7103.

(4) A *Dealer Member* must regularly review its policies and procedures to ensure they are appropriate for the size, nature, and complexity of the *Dealer Member's* business.

Part B - DEBT MARKET TRADING

7104. Trading personnel

(1) A *Dealer Member* must ensure that all personnel trading in the *debt securities* markets are:

(i) properly qualified and trained, and

(ii) aware of *IIROC requirements* and *applicable laws* relating to *debt securities* market trading.

(2) A *Dealer Member* must ensure that its personnel use clear and unambiguous language in their trading activities.

(3) A *Dealer Member's* personnel must be familiar with the appropriate trading terminology and conventions.

(4) A *Supervisor* in the appropriate business group of the *Dealer Member* must supervise its trading activities.

7105. Confidentiality

(1) Except with the express permission of the party concerned or as required by *applicable laws*, a *Dealer Member*:

(i) must ensure that its dealings with clients and counterparties are confidential,

(ii) must not disclose or discuss, or request that others disclose or discuss, any client's or counterparty's participation in the *debt securities* markets or the terms of any trading or anticipated trading, and

(iii) must ensure on a pre-trade basis that its own trading activities and planning strategies are kept confidential for market integrity purposes.

(2) A *Dealer Member's* policies and procedures relating to *debt securities* must specifically address:

(i) restricting access to confidential information to the personnel that require it for their jobs,

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(ii) confining trading by designated personnel to restricted-access office areas, and

(iii) using secure forms of communications and technology.

(3) A *Dealer Member* that is a *Government Securities Distributor* (defined in section 7202) must comply with requests for information from the Bank of Canada.

7106. Resources and systems

(1) A *Dealer Member* must have sufficient capital, liquidity support, and personnel to support its trading activities.

(2) A *Dealer Member* must have comprehensive operating systems, including all aspects of risk management, transaction valuation, technology, and financial reporting to ensure full support for trading.

7107. Conflicts of interest

(1) A *Dealer Member* must ensure that its dealings in *debt securities* markets are fair and transparent.

(2) A *Dealer Member* must fulfill its duties to clients before its own interests or those of its personnel.

7108. Duty to deal fairly

(1) A *Dealer Member* must observe high standards of ethics and conduct in transacting business to maintain investor confidence in the *debt securities* markets.

(2) A *Dealer Member* must prohibit any business conduct or practice that is unbecoming or detrimental to the public interest.

(3) A *Dealer Member* must act fairly, honestly, and in good faith when marketing, entering into, carrying out, and administering trades in the *debt securities* markets.

7109. Manipulative and deceptive practices in the debt markets

(1) In its trading activities in the *debt securities* markets, a *Dealer Member* must not, directly or indirectly, engage or participate in any act, method or practice it knows or ought reasonably to know is manipulative or deceptive.

(2) Without limiting the conduct prohibited by Rule 7100, the following are manipulative or deceptive practices:

(i) carrying out trades intended to artificially increase trading volumes,

(ii) carrying out trades intended to artificially change trading prices,

(iii) participating in or tacitly consenting to spreading rumours or information about issuers that are known, or ought reasonably to be known, to be false or misleading,

(iv) disseminating any information that falsely states or implies governmental approval of any institution or trading, or

(v) conspiring or colluding with another market participant to manipulate or unfairly deal in the *debt securities* markets.

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7110. Taking unfair advantage

(1) A *Dealer Member* must not engage in trading practices that take unfair advantage of clients or counterparties by:

(i) acting on knowledge of a new issue or client order to unfairly profit from the expected market movement or distorted market levels,

(ii) carrying out proprietary trades ahead of client orders on the same side of the market without first disclosing to the client the intention to do so and obtaining the client's approval,

(iii) profiting unfairly by using proprietary information that if released could reasonably be expected to affect market prices,

(iv) using material non-public information,

(v) abusing market procedures or conventions to obtain an unfair advantage over, or unfairly prejudice, its counterparties or clients, or

(vi) completing a trade when the price is clearly outside of the prevailing market and proposed or agreed to as a result of a manifest error.

7111. Derivatives trading

(1) The prohibitions in sections 7109 and 7110 apply to trading in *derivatives* of *debt securities*.

7112. Prohibited practices

(1) A *Dealer Member* must not accept any order or carry out any trade where the *Dealer Member* knows, or has reasonable grounds to believe, the result would contravene *IIROC requirements* or any *applicable laws*.

(2) An *Approved Person* or *employee* of a *Dealer Member* must not accept any material consideration, including *remuneration*, gratuity or benefit, from any *person* other than the *Dealer Member* for any activities conducted on behalf of a client.

(3) A *Dealer Member* must not offer any consideration, including *remuneration*, gratuity, or benefit, to any partner, director, officer, employee, agent or shareholder of a client or any *associate* of such *persons*, unless the prior written consent of the client has been obtained.

(4) Consideration that is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest is not consideration under subsections 7112(2) and 7112(3).

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7113. Surveillance and reporting

(1) A *Dealer Member* must monitor the trading and conduct of its *employees* and *agents* in the *debt securities* markets.

(2) A *Dealer Member* must promptly report to *IIROC* or other authority having jurisdiction, including the Bank of Canada:

(i) any breaches of *IIROC requirements*, or

(ii) suspicious or irregular market conduct.

(3) When requested by *IIROC* or the Bank of Canada (with respect to Government of Canada securities), a *Dealer Member* and any *related company* must disclose, on a confidential basis, the respective par value of each of its holdings in certain specified assets, in the form prescribed by the Bank of Canada (also known as a "Net Position Report"). On request, a *Dealer Member* must also provide any other information to identify large holdings that would permit a participant to have undue influence over the *debt securities* markets.

7114. – 7199. Reserved.

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RULE 7200

TRANSACTION REPORTING FOR DEBT SECURITIES

7201. Introduction

(1) Rule 7200 requires *Dealer Members* to report information about each of their transactions (and the transactions of any *affiliate* that is a *Government Securities Distributor* (defined in section 7202)) in *debt securities* to *IIROC* through a system maintained by *IIROC*.

(2) The reported transaction data required by Rule 7200 is used in *IIROC's* surveillance of the *debt securities* market to identify potential market abuses such as violations of the fair pricing requirements of section 3125, insider trading and market manipulation. It also supports *IIROC's* general inspection and enforcement activities, rulemaking, and other regulatory functions. The trade data received pursuant to Rule 7200 enables appropriate oversight to ensure the integrity of over-the-counter *debt securities* market trading and strengthen standards of investor protection.

(3) For the purposes of Rule 7200, fact that a security was issued in another country or denominated in a foreign currency does not disqualify it from being a *debt security*.

7202. Definitions

(1) The following terms have the meaning set out below when used in Rule 7200:

"authorized agent"	A *Dealer Member* or other business entity that has successfully enrolled with *IIROC* under section 7205 to submit debt securities transaction reports on behalf of *Dealer Members*.
"CUSIP"	Committee on Uniform Securities Identification Procedures.
"file receipt"	An electronic acknowledgement that confirms the transaction reporting data file has been successfully transmitted.
"Global Legal Entity Identifier System"	The system for unique identification of parties to financial transactions developed by the *Legal Entity Identifier System Regulatory Oversight Committee*.
"Government Securities Distributor"	An entity that has been given notice of its status as such by the Bank of Canada and applies to those bidders eligible to participate directly in the tender process at Government of Canada auctions.
"ISIN"	International Securities Identification Number.
"Legal Entity Identifier" or "LEI"	A unique identification code assigned to a counterparty in accordance with standards set by the *Global Legal Entity Identifier System*. If the *Global Legal Entity Identifier System* is unavailable to a reporting counterparty when a reporting obligation under Rule

	7200 arises, a substitute legal identifier must be used as identified by *IIROC*.
"Legal Entity Identifier System Regulatory Oversight Committee"	The international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the *Global Legal Entity Identifier System* dated November 5, 2012.
"MTRS 2.0"	The Market Trade Reporting System operated by *IIROC* for reporting *debt securities* transactions.
"MTRS 2.0 Enrollment Form"	The form filed by a *Dealer Member* with *IIROC* to supply contact and other information that may be needed by *IIROC* in connection with the *Dealer Member's* reporting of *debt securities* transactions. An MTRS 2.0 Enrollment Form must also be filed by any party seeking to act as an *authorized agent* for a *Dealer Member* in reporting transaction data to *MTRS 2.0*.
"riskless principal trade"	A trade in a *debt security* that involves two offsetting orders (buy and sell) that are filled through transactions executed against a *Dealer Member's* trading or other proprietary account, with the execution of one of the orders dependent upon the receipt or execution of the other. A riskless principal trade results in two offsetting principal transactions on the *Dealer Member's* books, rather than one agency transaction. A *Dealer Member* typically performs a riskless principal trade to fill a client order with an offsetting transaction in the market or with another client.
"special condition indicator"	A code used on a transaction report to indicate that the transaction has certain attributes. Among other uses, the special condition indicator helps to identify transactions that may be priced differently than other transactions in the same issue (for instance, a primary market transaction subject to a fixed price offering agreement). Special condition indicators are also used to identify *repurchase agreement* transactions, transactions that involve parties related to the *Dealer Member* executing the transaction, and certain other conditions that may apply to a transaction and that are relevant to the regulatory and market surveillance purposes of Rule 7200.

7203. Reporting requirements

(1) Every *Dealer Member* must report each of its transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) and the transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) of any *affiliate* that is a *Government Securities Distributor*, to *IIROC* within the timeframes and in the manner specified in Rule 7200, subject to the exceptions stated below in subsection 7203(2).

(2) The following must not be reported under subsection 7203(1):

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(i) a transaction in *debt securities* that have no *ISIN* or *CUSIP* number assigned on the date of trade execution, except that, if that transaction is a new issue of a *debt security*, it shall be reported within the timeframe stated in clause 7204(1)(ii) if an *ISIN* or *CUSIP* number is assigned to the *debt security* by 6:00 p.m. on the *business day* following the date of sale of the new issue,

(ii) a transaction in exchange listed *debt securities* executed on a *Marketplace* that transmits to *IIROC* trade information required under National Instrument 23-101,

(iii) a transaction between two separate business units or profit centres within the reporting *Dealer Member* where there is no change in *beneficial ownership*,

(iv) a *repurchase agreement* transaction or *reverse repurchase agreement* transaction executed by a *Dealer Member* that is not a *Government Securities Distributor*,

(v) a transaction in which the Bank of Canada or the Bank of Canada on behalf of the Government of Canada is the counterparty, and

(vi) a transaction, other than a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, executed by an *affiliate* that is a *Government Securities Distributor* only for Government of Canada treasury bills, in a *debt security* with an original term to maturity of greater than one year.

(3) Reporting responsibilities in the most common situations are as follows:

(i) in a transaction between a *Dealer Member* and a client or non-client, the *Dealer Member* reports,

(ii) in a transaction between a *Dealer Member* and an *inter-dealer bond broker* or issuer, the *Dealer Member* reports, and

(iii) in a transaction between a *Dealer Member* and an Alternative Trading System, where the Alternative Trading System is the counterparty, the *Dealer Member* and the Alternative Trading System must report. In a transaction between an Alternative Trading System (where the Alternative Trading System is the counterparty) and a client, the Alternative Trading System reports.

(4) A *Dealer Member* may use an *authorized agent* to submit transactions to *MTRS 2.0*. A *Dealer Member* utilizing an *authorized agent* for transaction reporting remains responsible for compliance with Rule 7200.

(5) A *Dealer Member* is required to obtain a *Legal Entity Identifier* and must comply with all applicable requirements imposed by the *Global Legal Entity Identifier System*.

(6) Transaction reports made under subsection 7203(1) must accurately and completely reflect the reported transaction and must contain the following data elements relevant to a bond or *repurchase agreement* transaction or *reverse repurchase agreement* transaction, as applicable:

No.	**Data**	**Description**
1.	SECURITY IDENTIFIER	The *ISIN* number or *CUSIP* number assigned to

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		the securities in the transaction
2.	SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, *ISIN* or *CUSIP*
3.	TRADE IDENTIFIER	Unique identifier assigned to the transaction by the reporting *Dealer Member*
4.	ORIGINAL TRADE IDENTIFIER	Included on trade cancelations or corrections
5.	TRANSACTION TYPE	Indicates whether the transaction is new, a cancelation, or a correction
6.	EXECUTION DATE	The day the transaction was executed
7.	EXECUTION TIME	The time at which the transaction was executed, either as recorded by an electronic trading system or time of entry into a trade booking system
8.	SETTLEMENT DATE	The date the transaction is reported to settle
9.	TRADER IDENTIFIER	Assigned by reporting *Dealer Member* to identify the *individual*/desk responsible for the transaction
10.	REPORTING DEALER IDENTIFER	The *LEI* of the reporting *Dealer Member*
11.	COUNTERPARTY TYPE	Indicates whether the counterparty was a client, non-client, a *Dealer Member*, a *Dealer Member* acting as an Alternative Trading System, an *inter-dealer bond broker* (IDBB), an issuer or a bank
12.	COUNTERPARTY IDENTIFIER	The *LEI* of the counterparty, when the counterparty is a *Dealer Member*, bank, *inter-dealer bond broker* (IDBB), or Alternative Trading System. Bank trades are defined as trades with Schedule I *chartered banks* and Canadian offices of Schedule II *chartered banks*
13.	CLIENT ACCOUNT TYPE	Indicates whether the client is a *retail client* or an *institutional client*. This field must be populated if the counterparty type is 'client'
14.	CLIENT LEI	The *LEI* assigned to the i*nstitutional client*, where available. Optional field
15.	CLIENT ACCOUNT IDENTIFIER	Identifier assigned by a reporting *Dealer Member* to uniquely identify the client where

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		the counterparty is 'client' and no client *LEI* is available. Optional field
16.	INTRODUCING/ CARRYING DEALER INDICATOR	Indicates whether the reporting *Dealer Member* acted in the capacity of an *introducing broker* or *carrying broker*
17.	ELECTRONIC EXECUTION INDICATOR	Indicates if the transaction was executed on or facilitated through an electronic trading venue
18.	TRADING VENUE IDENTIFER	The *LEI* of the electronic trading venue
19.	SIDE	Indicates whether the reporting *Dealer Member* was a buyer or seller
20.	QUANTITY	Par value of securities
21.	PRICE	The price at which the transaction was executed, including any mark-ups or mark-downs or commission
22.	BENCHMARK SECURITY IDENTIFIER	The *ISIN* or *CUSIP* of the bond used as pricing benchmark (if any)
23.	BENCHMARK SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, *ISIN* or *CUSIP*
24.	YIELD	The yield as stated on the client confirmation
25.	COMMISSION	For *retail client* transactions, the total amount of any mark-up or mark-down, commission or other services charges as stated on the client confirmation
26.	CAPACITY	Indicates whether the *Dealer Member* acted as principal or agent (*riskless principal trades* reported as principal)
27.	PRIMARY MARKET	*Special condition indicator* to indicate that the transaction is being submitted by an underwriter of a new issue of *debt securities* and that, at the time of the transaction, the securities were subject to a fixed price offering agreement. "Take-down" allocations from a syndicate manager to syndicate members are included in this designation as well as customer allocations by any member of the underwriting group subject to a fixed price offering agreement at the time of trade

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28.	RELATED PARTY INDICATOR	*Special condition indicator* to indicate that the counterparty is an *affiliate* of the *Dealer Member*
29.	NON RESIDENT INDICATOR	*Special condition indicator* to indicate that the transaction is one with a non-resident counterparty
30.	FEE BASED ACCOUNT INDICATOR	*Special condition indicator* to indicate that the transaction is for a *retail client* account paying non-transaction-based fees as partial or full *remuneration* for the *Dealer Member's* transaction execution services

Elements specific to *repurchase agreement* transactions or *reverse repurchase agreement* transactions:

No.	**Data**	**Description**
31.	REPO AGREEMENT IDENTIFIER	Unique identifier assigned to the *repurchase agreement* transaction or *reverse repurchase agreement* transaction by the reporting *Dealer Member*
32.	REPO TYPE	Indicates whether the transaction was conducted as part of a *repurchase agreement*, a *reverse repurchase agreement*, a sell/buy-back, or a buy/sellback
33.	REPO TERM	Indicates whether the *repurchase agreement* transaction or *reverse repurchase agreement* transaction has fixed term or is an open term *repurchase agreement* transaction or *reverse repurchase agreement* transaction
34.	REPO MATURITY DATE	The maturity date if the *repurchase agreement* transaction or *reverse repurchase agreement* transaction has a term
35.	CURRENCY OF REPO	The currency denomination of the cash payment used for the initial purchase of the security in a *repurchase agreement* or *reverse repurchase agreement*
36.	REPO RATE	The *repurchase agreement* or *reverse repurchase agreement* interest rate. If the interest rate is not a term of the contract, then it is the interest rate implied by the difference between the sale (purchase) price and its repurchase

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		(resale) price
37.	REPO HAIRCUT	The *repurchase agreement* or *reverse repurchase agreement* haircut. If the haircut is not a term of the contract, then it is the haircut implied by the disparity between the purchase price and the *market value* of the security at the time of initial purchase
38.	REPO COLLATERAL SECURITY TYPE	Indicates the type of identifier that was submitted, *ISIN* or *CUSIP*, or if the *repurchase agreement* transaction or *reverse repurchase agreement* transaction is for general collateral, or if the *repurchase agreement* transaction or *reverse repurchase agreement* transaction is for multiple securities
39.	REPO COLLATERAL SECURITY IDENTIFER	The *ISIN* or *CUSIP* number of the security underlying a *repurchase agreement* transaction or *reverse repurchase agreement* transaction at the beginning of the agreement if a single security is used as collateral
40.	CLEARING HOUSE	If the *repurchase agreement* transaction or *reverse repurchase agreement* transaction was centrally cleared, the *LEI* identifier of the central clearing house

7204. Reporting timeframes

(1) A *Dealer Member* must ensure that a transaction report for which the *Dealer Member* is responsible is received by *IIROC* in proper form and with complete and accurate information within the following timeframes:

(i) for transactions in *debt securities* with *ISIN* or *CUSIP* Numbers assigned on the date of trade execution:

(a) if the date of trade execution is a *business day* and the time of transaction execution is no later than 6:00 p.m., the report must be made no later than 2:00 p.m. on the *business day* following the date of trade execution,

(b) if the date of trade execution is a *business day* and the time of transaction execution is after 6:00 p.m., the report must be made no later than 2:00 p.m. on the second *business day* following the date of trade execution, and

(c) for all other transactions, including those executed on a Saturday, Sunday, or any officially recognized Federal or Provincial statutory holiday on which the system is closed, the report must be made no later than 2:00 p.m. on the second *business day* following the date of trade execution,

provided, however, that:

IIROC Rule

(ii) for transactions in new issue *debt securities* with no *ISIN* or *CUSIP* number assigned, a transaction report required under clause 7203(2)(i) must be made no later than 6:00 p.m. on the *business day* following the day that the *ISIN* or *CUSIP* number is assigned.

(2) Upon a successful submission and receipt by *IIROC* of transaction reports, *MTRS 2.0* provides the submitter with *file receipts*, which must be retained by the *Dealer Member*:

(i) in a central, readily accessible place for a period of two years from the date of each *file receipt*, and

(ii) in any location from which the *File Receipts* may be retrieved within a reasonable period of time for a period of seven years from the date of each *file receipt*.

7205. Enrollment requirements

(1) A *Dealer Member* or *authorized agent* that will submit *debt securities* transaction reports to *MTRS 2.0* must enroll in *MTRS 2.0* and receive file submission credentials from *IIROC* by completing the *MTRS 2.0 Enrollment Form* with all required information, including technical and business contact points.

(2) Once enrolled, *Dealer Members* remain responsible for keeping all information on the *MTRS 2.0 Enrollment Form* up to date.

7206. – 7299. Reserved.

IIROC Rule

RULE 7300

INTER-DEALER BOND BROKERS

7301. Introduction

(1) Rule 7300 describes *IIROC requirements* for *inter-dealer bond brokers* used by *Dealer Member*s. Its purposes are to ensure the financial viability of *inter-dealer bond brokers* and make the *debt securities* market more efficient.

(2) Rule 7300 is divided into the following parts:

Part A - General requirements
[section 7303]

Part B - Requirements for inter-dealer bond broker approval and continued approval
[sections 7304 and 7305]

Part C - Changes to IIROC requirements for inter-dealer bond brokers
[section 7306]

7302. Definitions

(1) The following terms have the meaning set out below when used in Rule 7300:

"domestic debt securities"	Canadian dollar denominated *debt securities* issued or primarily traded in Canadian markets, whether issued by the Government of Canada, a province, a municipality, a crown corporation, or a private sector corporation, and includes securities being traded on a "when issued" basis. Eurodollar *debt securities* are not *domestic debt securities*.
"inter-dealer bond broker client"	A *person* permitted by an *inter-dealer bond broker* to use its services to trade *domestic debt securities*.
"inter-dealer bond broker trader"	An *individual* supervised or controlled by an *inter-dealer bond broker client*, either through an employee or other similar relationship, who is authorized by the *inter-dealer bond broker client* to use the *inter-dealer bond broker* to buy or sell *domestic debt securities* for that *inter-dealer bond broker client*.
"information processor"	Any *person* that receives and provides information under National Instrument 21-101 and has filed a 21-101F5 and, in Québec, that is a recognized information processor.

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Part A - GENERAL REQUIREMENTS

7303. Dealer Members must trade through an IIROC approved inter-dealer bond broker

(1) A *Dealer Member* that trades *domestic debt securities* through the facilities of an *inter-dealer bond broker* must do so through an *IIROC* approved *inter-dealer bond broker*. Trades must comply with the *inter-dealer bond broker's* operating procedures and *IIROC requirements*.

Part B - REQUIREMENTS FOR INTER-DEALER BOND BROKER APPROVAL AND CONTINUED APPROVAL

7304. Eligibility of inter-dealer bond broker for IIROC approval

(1) An applicant for *IIROC* approval as an *inter-dealer bond broker* must:

(i) be registered or licensed in each province or territory where it requires registration or licensing,

(ii) comply with *securities laws* and requirements of any *securities regulatory authority* having jurisdiction over the applicant, and

(iii) comply with the standards and conditions of approval described in section 7305.

(2) An applicant for approval as an *inter-dealer bond broker* must submit its application to *IIROC* together with any information required by *IIROC requirements*.

7305. IIROC requirements for inter-dealer bond broker approval and continued approval

(1) An *inter-dealer bond broker* must comply with the requirements in section 7305 to be approved by *IIROC* and to retain its approval.

(2) An *inter-dealer bond broker* must have and maintain at least $500,000 of shareholders' equity, or have a parent corporation with at least $500,000 of shareholders' equity irrevocably *guarantee* that amount.

(3) An *inter-dealer bond broker* must:

(i) provide evidence to *IIROC* that all of its *inter-dealer bond broker clients* are and will continue to be:

(a) *Dealer Member*s,

(b) Canadian *chartered banks* or other organizations described in clause 7305(4)(iii) below, or

(c) any other *IIROC* approved financial institution,

(ii) require each new *inter-dealer bond broker client*, other than a *Dealer Member* or Canadian *chartered bank*, to provide it with recent financial statements or other evidence of financial condition and a favourable reference letter from a participant in an *IIROC* approved *inter-dealer bond broker*, and

(iii) provide evidence to *IIROC* that all of the *inter-dealer bond broker traders* for its *inter-dealer bond broker clients* will be located in Canada.

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(4) Clause 7305(3)(iii) does not apply to an *inter-dealer bond broker trader* trading for an *inter-dealer bond broker client* that:

(i) is a Schedule I *chartered bank* or its *affiliate* (other than an *affiliate*, or its *subsidiary*, whose business is mainly securities),

(ii) is a Schedule II *chartered bank* or its *subsidiary* of such a bank whose primary business is not securities (this exception does not apply to *inter-dealer bond broker traders* of other *affiliates* of *chartered banks*), or

(iii) (a) is a *Dealer Member* or branch office member,

(b) is a *Dealer Member's affiliate* that has entered into an agreement as subsection 7305(7) describes and that either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or

(c) has entered into an agreement as subsection 7305(7) describes and:

(I) is not a *Dealer Member's affiliate*,

(II) is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, and

(III) gives *IIROC* a satisfactory legal opinion stating that the *inter-dealer bond broker client* does not contravene the registration requirements of *securities laws*.

(5) The *inter-dealer bond broker* must only deal in *domestic debt securities* as agent on behalf of its *inter-dealer bond broker clients* and must not act as principal, either directly or indirectly.

(6) The *inter-dealer bond broker* must provide accurate and timely information regarding details of orders and trades for *domestic debt securities* to the *information processor*, as required by National Instrument 21-101.

(7) *Inter-dealer bond broker clients* outside Canada must sign an agreement under sub-clauses 7305(4)(iii)(b) and 7305(4)(iii)(c) that complies with the following provisions:

(i) the parties to the agreement must include *IIROC*, the *inter-dealer bond broker client* outside Canada and, if applicable, the *inter-dealer bond broker client's* affiliated *Dealer Member*,

(ii) an *inter-dealer bond broker client* outside Canada must state that it is carrying out its trading:

(a) in a jurisdiction in which it either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or

(b) from a jurisdiction in which *IIROC* is satisfied that one of the self-regulatory organizations specified in sub-clause 7305(7)(ii)(a) has jurisdiction over its trading activities,

(iii) an *inter-dealer bond broker client* outside of Canada must agree to give a *Dealer Member* its *domestic debt securities* trading activity information so that the *Dealer Member* can regularly report its aggregated trading to *IIROC* under *IIROC requirements*,

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(iv) if *IIROC* requests this information for a specific inquiry about *domestic debt securities* trading, the *inter-dealer bond broker client* outside Canada must agree to give it, subject to appropriate confidentiality provisions, additional information, and

(v) the agreement must adapt the requirements in clauses 7305(7)(i) through 7305(7)(iv) to the circumstances of the *inter-dealer bond broker client*.

(8) Commission schedule requirements:

(i) An *inter-dealer bond broker* must publish a commission schedule showing commissions charged for a trade.

(ii) An *inter-dealer bond broker* must not charge a commission greater than those listed in its commission schedule.

(iii) A change to an *inter-dealer bond broker's* commission schedule may be effective from the date the *inter-dealer bond broker* gives written notice to all its *inter-dealer bond broker clients*.

(9) Operating procedures manual and other requirements:

(i) An *inter-dealer bond broker* must have a current operating procedures manual and appropriate enforcement or compliance procedures to ensure its provisions are observed.

(ii) The *inter-dealer bond broker's* operating procedures manual must:

(a) have a code of ethics that includes the following:

(I) the *inter-dealer bond broker* will keep confidential all information received from or about its *inter-dealer bond broker clients* or their activities, unless that information must be disclosed for regulatory or compliance reasons,

(II) all *inter-dealer bond broker clients* will receive fair treatment, and

(III) the *inter-dealer bond broker* will not give to an *inter-dealer bond broker client's* partner, director, officer, employee, agent or shareholder or any *associate* of such *persons* any gift or other incentive to do business unless it is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest,

and

(b) describe the minimum capital requirements for its *inter-dealer bond broker clients* and the procedure to establish the requirements.

(iii) An approved *inter-dealer bond broker* must provide a copy of its operating procedures manual to each *inter-dealer bond broker client*.

(iv) The *inter-dealer bond broker* must give its *inter-dealer bond broker clients* two weeks prior written notice of any amendment to its operating procedures manual, unless *IIROC* approves a shorter notice period.

(10) An *inter-dealer bond broker* must give each of its *inter-dealer bond broker clients* a daily report that describes the net amount of outstanding deliveries and the total amount of outstanding deliveries that the *inter-dealer bond broker clients* had with every other *inter-dealer bond broker*

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client at the previous day's close of business in each of the following categories:

(i) *domestic debt securities*, with 10 years or less to maturity, issued or guaranteed by the Government of Canada or by a Canadian province or municipality,

(ii) *domestic debt securities* with more than 10 years to maturity, issued or guaranteed by the Government of Canada or a Canadian province or municipality,

(iii) *domestic debt securities* issued by a corporation, and

(iv) other *debt securities*, including *domestic debt securities* not in another category.

(11) An *inter-dealer bond broker* must file with *IIROC*:

(i) within 140 days of its financial year end, summary statement of financial position information and an auditor's report, prepared in accordance with generally accepted accounting principles, and

(ii) within 60 days of the interim-period date, interim semi-annual statement of financial position information prepared in accordance with generally accepted accounting principles.

(12) An *inter-dealer bond broker* must have its auditor confirm to *IIROC*, at least annually, that the *inter-dealer bond broker* has met *IIROC requirements* for continued approval under Rule 7300. At a minimum, the confirmation must state the following:

"In the course of our audit, nothing came to our attention that caused us to believe that the company held a position in securities for its own account or dealt with any person that is not eligible to be an inter-dealer bond broker client of the company under Rule 7300."

(13) The parties to an *inter-dealer bond broker client* agreement must agree that any disagreement between *inter-dealer bond broker clients*, or between an *inter-dealer bond broker client* and the *inter-dealer bond broker*, about who is responsible for a financial loss of less than $100,000 must go to arbitration under the Arbitrations Act (Ontario). The parties must agree that the following provisions govern any arbitration:

(i) Three arbitrators must resolve the disagreement. The arbitrators must be selected as follows:

(a) one arbitrator must be the Chair of *IIROC* Fixed Income Committee or, if the Chair is involved in the disagreement, the Chair's designate,

(b) the parties to the disagreement must unanimously agree on the selection of one arbitrator from among all *IIROC* approved *inter-dealer bond brokers* and their *inter-dealer bond broker clients*, and

(c) the parties must unanimously agree on the selection of one arbitrator who is unconnected to either an *inter-dealer bond broker client* or an *inter-dealer bond broker*. If the parties cannot unanimously agree, then a party may apply to have a judge select one or both arbitrators.

(ii) Subject to co-operation from the parties, the arbitrators must make their decision within two weeks of being notified in writing of their appointment. However, the parties may agree on a later notification date.

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(iii) The parties may not appeal the arbitrators' award under the Arbitrations Act (Ontario).

Part C - CHANGES TO IIROC REQUIREMENTS FOR INTER-DEALER BOND BROKERS

7306. Committee review

(1) *IIROC* must consult a committee comprised of representatives of parties to which Rule 7300 applies, including *Dealer Member*s, *inter-dealer bond broker clients* outside of Canada, and approved *inter-dealer bond brokers*, before *IIROC* amends Rule 7300 or changes its interpretation of Rule 7300.

7307. – 7999. Reserved.

IIROC Rule

RULE 8100

ENFORCEMENT INVESTIGATIONS

8101. Introduction

(1) Rule 8100 sets out the powers of *IIROC* to initiate and conduct enforcement *investigations* and the rights and obligations of *Regulated Persons* with respect to such *investigations*.

8102. Conducting investigations

(1) *Enforcement Staff* may investigate the conduct, business and affairs of a *Regulated Person* with respect to *IIROC requirements*, *applicable laws,* or trading or advising in respect of securities, *futures contracts* or *derivatives*.

8103. Investigation powers

(1) In connection with an *investigation*, *Enforcement Staff* may, by written or electronic request, require a *Regulated Person*, an employee, partner, director or officer of a *Regulated Person*, an *approved investor*, or, where authorized by law, another *person* to:

(i) provide a written report with respect to any matter,

(ii) produce for inspection any *records* and documents in the *person's* possession or control that *Enforcement Staff* believe may be relevant to the *investigation*, whether written, electronically stored or recorded,

(iii) provide copies of any such *records* and documents in the manner and form, including electronically and recorded, that *Enforcement Staff* requests, and

(iv) attend and answer questions under oath or otherwise, and any such attendance may be transcribed, recorded electronically, audio-recorded or video-recorded, as *Enforcement Staff* determines.

(2) If *Enforcement Staff* requires production of original documents in a request made under subsection 8103(1), they must provide a receipt for any original documents received.

(3) In connection with an *investigation*, *Enforcement Staff:*

(i) may, with or without prior notice, enter the *business location* of any *Regulated Person* during business hours,

(ii) are entitled to free access to and to make and keep copies of all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and *records* of every description that *Enforcement Staff* believe may be relevant to the *investigation*, including by taking an image of the computer hard drives of the *Regulated Person*, and

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(iii) may remove the original of any document or *record* obtained under clause 8103(3)(ii), and where an original document or *record* is removed from the premises, *Enforcement Staff* must provide a receipt for the removed document or *record*.

8104. Obligations of Regulated Persons and other persons

(1) A *person* who receives a request made under section 8103 must comply with the request within the time specified in it.

(2) If *Enforcement Staff* make a request under clause 8103(1)(i) or 8103(1)(iv) to a corporation, partnership or other organization, compliance with the request may be fulfilled by an employee of the corporation, partnership or organization who is acceptable to *Enforcement Staff,* taking into account the employee's position and knowledge.

(3) A *person* must cooperate with *Enforcement Staff* who are conducting an *investigation,* and a *Regulated Person* must require its employees, partners, directors and officers to cooperate with *Enforcement Staff* conducting an *investigation* and to comply with a request made under section 8103.

(4) A *person* who is aware that *Enforcement Staff* are conducting an *investigation* must not conceal or destroy any *record*, document or thing that contains information that may be relevant to the *investigation* or to any subsequent proceeding relating to the subject matter of the *investigation* or ask or encourage another *person* to do so.

(5) A *Dealer Member* or any *person* approved by, or under the jurisdiction of, *IIROC*, that is requested by a *Marketplace* to provide information in connection with an investigation of trading of a security on that *Marketplace* shall submit the requested records to the *Marketplace* making the request in such a manner and form, including electronically, as may reasonably be prescribed by such *Marketplace*.

8105. Right to counsel

(1) A *person* who attends in response to a request under clause 8103(1)(iv) may be represented by counsel.

8106. Confidentiality of investigations

(1) *IIROC* may make an order prohibiting a *person* from communicating, for a specified period, some or all of the following information related to an *investigation* to another *person* except the *person's* counsel or another *individual* who represents the *person* or as required by law:

(i) the nature or content of the *investigation* or a request under subsection 8103(1),

(ii) the fact of an entry by *Enforcement Staff* under subsection 8103(3),

(iii) the fact that any report, *record*, other document or thing was requested, produced, provided, inspected, copied or taken,

(iv) the name of any *person* required to attend and answer questions, or

(v) any questions asked or any answers given on an attendance.

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(2) An order made under subsection 8106(1) shall not prohibit disclosure:

(i) of any fact that the *person* became aware of otherwise than as a result of the conduct of the *investigation*,

(ii) that is required to fulfill:

(a) any request made in connection with an *investigation*, but only to the extent necessary to respond to the request,

(b) an obligation of the *person* under *IIROC requirements*,

(c) a fiduciary obligation of the *person* to a *Regulated Person*, or

(d) a contractual obligation of the *person* to comply with the policies of a *Regulated Person*,

(iii) of information in connection with the imposition of restrictions on a *person* who is a subject of the *investigation*, but only to the extent necessary to implement the restrictions, or

(iv) of the existence and nature of an *investigation* to:

(a) a *Regulated Person* who is the *person's* employer,

(b) an employee of a *Regulated Person* with supervisory authority over or compliance responsibility for the *person*, or

(c) employees of the *Regulated Person* who are senior to the employees contemplated in sub-clause 8106(2)(iv)(b), but only to the extent necessary to supervise the *person* or allow *officers* of a *Dealer Member* or other *Regulated Person* to inform their board of directors of an *investigation*.

(3) Notwithstanding an order made under subsection 8106(1), a *person* may disclose information, with the consent of a *hearing panel* on a motion under section 8413, if the *hearing panel* determines that disclosure of that information would not impede the conduct of the *investigation* and is otherwise justifiable, subject to any terms and conditions that the *hearing panel* considers appropriate.

8107. Continuing jurisdiction

(1) A *Regulated Person* remains subject to Rule 8100 for six years following the date on which they cease to be:

(i) a *Dealer Member*,

(ii) a non-*Dealer Member* user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider, or

(iii) an *employee*, partner, *Director*, *officer* or any other representative designated in *IIROC requirements* of a *Dealer Member*, or

(iv) an employee, partner, director, officer or any other representative of a non-*Dealer Member* user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider.

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8108. – 8199. Reserved.

IIROC Rule

RULE 8200

ENFORCEMENT PROCEEDINGS

8201. Introduction

(1) Rule 8200 sets out the authority of *IIROC* and *hearing panels* to hold *hearings* for enforcement purposes.

(2) Enforcement proceedings are intended to ensure compliance with and to enforce *IIROC requirements*, *securities laws*, and other requirements relating to trading or advising in respect of securities, *futures contracts* or *derivatives*.

(3) Rule 8200 is divided into the following parts:

Part A - General

[sections 8203 through 8208]

Part B - Disciplinary proceedings

[sections 8209 through 8217]

8202. Definitions

(1) The following terms have the meaning set out below when used in Rule 8200:

"decision"	A determination made by a *hearing panel* under Rule 8200 and includes a *sanction* and other order or ruling.
"disciplinary hearing"	A *hearing* under Rule 8200, except for a *settlement hearing*.

Part A - GENERAL

8203. Hearings

(1) A *hearing* must be conducted in accordance with Rule 8200 and the *Rules of Procedure.*

(2) A *hearing panel* may hold any *hearing* and make any *decision* that is authorized under Rule 8200 and the *Rules of Procedure*.

(3) A *hearing panel* may admit as evidence in a *hearing* any oral testimony and any document or other thing that is relevant, whether or not given or proven under oath or affirmation or admissible as evidence in a court.

(4) A *hearing panel* may require testimony or other evidence to be given or proven under oath or affirmation.

(5) A *hearing* under Rule 8200 must be open to the public, unless it is:

(i) a *settlement hearing*, in which case it will be opened to the public only after a *settlement agreement* has been accepted by the *hearing panel*,

(ii) a *hearing* to consider a temporary order under section 8211,

(iii) a *hearing* or part of a *hearing* where the *hearing panel* is of the opinion that the

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desirability of avoiding disclosure of intimate, personal or other matters outweighs the desirability of allowing the *hearing* or part of the *hearing* to be open to the public, or

(iv) a *hearing* held in Québec where the *hearing panel*, on its own initiative or on the request of a *party*, orders the *hearing* or part of the *hearing* to be closed or prohibits the publication or release of documents in the interest of good morals or public order.

(6) A *party* to an enforcement proceeding may be represented by counsel or, where permitted by law, an agent.

(7) A *hearing panel* must provide written reasons for a *decision* made by it, including a *decision* accepting or rejecting a *settlement agreement* under section 8215, but not including an evidentiary or other procedural ruling, made in the course of a *hearing,* that is not dispositive of the issues raised in the *hearing*.

8204. Application and effective date of decisions

(1) A *decision* under Rule 8200 applies in all *Districts*, unless the *hearing panel* orders otherwise or unless the application of the *decision* is limited by law.

(2) A *decision*, other than a ruling in the course of a *hearing*, is effective on the date the *decision* is dated by the *National Hearing Coordinator*, unless Rule 8200 or the *decision* provides otherwise, in which case the *decision* is effective on the date so provided.

(3) A *sanction*, other than a fine or disgorgement, takes effect on the effective date of the *decision* imposing it, unless the *decision* provides otherwise.

(4) A fine, disgorgement and costs imposed by a *decision* are payable when the *decision* is effective, unless the *decision* provides or the *parties* agree otherwise.

8205. Commencement of enforcement proceedings

(1) *IIROC* may commence proceedings and hold *hearings*, as provided in Rule 8200, to ensure compliance with and to enforce *IIROC requirements*, *securities laws,* and other requirements relating to trading or advising in respect of securities, *futures contracts* and *derivatives*.

(2) A proceeding under Rule 8200 must be commenced by notice of application or notice of *hearing* in accordance with the *Rules of Procedure*.

8206. Limitation

(1) A *Regulated Person* remains subject to Rule 8200 for six years following the date on which they cease to be:

(i) a *Dealer Member*,

(ii) a non-*Dealer Member* user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider, or

(iii) an *employee*, partner, *Director*, *officer* or any other representative designated in *IIROC requirements* of a *Dealer Member*, or

(iv) an employee, partner, director, officer or any other representative of a non-Dealer

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Member user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider.

(2) *IIROC* may commence a proceeding under Rule 8200 against a *Regulated Person* up to six years after the date of the occurrence of the last event on which the proceeding is based.

(3) If a proceeding is commenced within the limitation period in subsection 8206(1) or 8206(2), the *respondent* remains subject to the requirements of Rule 8200 until the proceeding, including any review or appeal, is completed.

8207. Amounts owing to IIROC

(1) A *person* remains liable to *IIROC* for all amounts owing to *IIROC*.

8208. Powers of compulsion

(1) A *hearing panel* may require a *Regulated Person,* an employee, partner, director or officer of a *Regulated Person* or *IIROC*, including *IIROC* staff*,* and, if authorized by law, any other *person* to attend and give evidence or produce *records* and documents in connection with a *hearing* under Rule 8200.

(2) A *Regulated Person* must, upon receipt of an order of a *hearing panel* or a notice from the *National Hearing Coordinator* so requiring:

(i) attend and give evidence, and

(ii) produce for inspection and provide copies of any *records* or documents in the *Regulated Person's* possession or control.

(3) If a *hearing panel* requires an employee, partner, director or officer of a *Regulated Person,* who is not an *Approved Person,* to attend at a *hearing*, the *Regulated Person* must direct the *individual* to attend and give evidence.

Part B - DISCIPLINARY PROCEEDINGS

8209. Sanctions for Dealer Members

(1) If, after a *hearing*, a *hearing panel* finds that a *Dealer Member* has contravened *IIROC requirements*, *securities laws*, or other requirement relating to trading or advising in respect of securities, *futures contracts*, or *derivatives*, the *hearing panel* may impose one or more of the following *sanctions*:

(i) a reprimand,

(ii) disgorgement of any amount obtained, including any loss avoided, directly or indirectly, as a result of the contravention,

(iii) a fine not exceeding the greater of:

(a) $5,000,000 for each contravention, and

(b) an amount equal to three times the profit made or loss avoided by the *Dealer Member*, directly or indirectly, as a result of the contravention,

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(iv) suspension of *Membership* in *IIROC* or of any right or privilege associated with *Membership*, including a direction to cease dealing with clients, for any period of time and on any terms and conditions,

(v) imposition of any terms or conditions on the *Dealer Member's* continued *Membership*, including on access to a *Marketplace*,

(vi) expulsion from *Membership* and termination of the rights and privileges of *Membership*, including access to a *Marketplace*,

(vii) permanent bar to membership in *IIROC*,

(viii) appointment of a *Monitor*, and

(ix) any other *sanction* determined to be appropriate under the circumstances.

(2) A *Dealer Member* may be *sanctioned* under subsection 8209(1) based on the conduct of an *employee*, partner, *Director* or *officer*.

(3) A *sanction* imposed under subsection 8209(1) relating to access to a *Marketplace* applies to all *Marketplaces*.

8210. Sanctions for Regulated Persons other than Dealer Members

(1) If after a *hearing*, a *hearing panel* finds that an *Approved Person*, a non-*Dealer Member* user or subscriber of a *Marketplace* for which *IIROC* is the regulation services provider or an employee, partner, director or officer of such a user or subscriber has contravened *IIROC requirements*, *securities laws*, or other requirement relating to trading or advising in respect of securities, *futures contracts*, or *derivatives*, the *hearing panel* may impose on such *person* one or more of the following *sanctions*:

(i) a reprimand,

(ii) disgorgement of any amount obtained, including any loss avoided, directly or indirectly, as a result of the contravention,

(iii) a fine not exceeding the greater of:

(a) $5,000,000 for each contravention, and

(b) an amount equal to three times the profit made or loss avoided by the *person*, directly or indirectly, as a result of the contravention,

(iv) suspension of the *person's* approval or any right or privilege associated with such approval, including access to a *Marketplace*, for any period of time and on any terms and conditions,

(v) imposition of any terms or conditions on the *person's* continued approval or continued access to a *Marketplace*,

(vi) prohibition of approval in any capacity, for any period of time, including access to a *Marketplace*,

(vii) revocation of approval,

(viii) a permanent bar to approval in any capacity or to access to a *Marketplace*,

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(ix) a permanent bar to employment in any capacity by a *Regulated Person*, and

(x) any other *sanction* determined to be appropriate under the circumstances.

(2) A *sanction* imposed under subsection 8210(1) relating to access to a *Marketplace* applies to all *Marketplaces*.

(3) A director or officer of a *Regulated Person* may be *sanctioned* under subsection 8210(1) based on the conduct of the *Regulated Person* with which he or she is associated.

(4) A *Regulated Person* must not employ, hire, retain, or otherwise engage, in any capacity, a *person* who is *sanctioned* under clause 8210(1)(ix).

8211. Temporary orders

(1) On application by *Enforcement Staff,* if a *hearing panel* is satisfied that the length of time required to conclude a *hearing* could be prejudicial to the public interest, the *hearing panel* may, without notice to the *respondent*, make a temporary order that suspends or restricts a *Regulated Person's* rights and privileges and may impose terms and conditions that the *hearing panel* considers appropriate.

(2) A temporary order that is made without notice under subsection 8211(1) expires 15 days after the date on which it is made, unless:

(i) a *hearing* is commenced within that period to confirm or set aside the temporary order,

(ii) the *Regulated Person* consents to an extension of the temporary order, or

(iii) a *securities regulatory authority* orders otherwise.

(3) *IIROC* must immediately give written notice of a temporary order under subsection 8211(1) to every *person* directly affected by it.

8212. Protective orders

(1) On application by *Enforcement Staff*, a *hearing panel* may hold a *hearing* to consider a request for an order under subsection 8212(4), following notice to the *respondent* in accordance with subsection 8426(1).

(2) After a *hearing* under this section with respect to a *Dealer Member*, a *hearing panel* may make one or more of the orders set out in subsection 8212(4), if it finds that:

(i) the *Dealer Member* or a parent corporation or control person of the *Dealer Member* has made a general assignment for the benefit of creditors or an authorized assignment or proposal to its creditors, has been declared bankrupt, or is the subject of a winding-up order, an application under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended, or similar legislation or an application for its liquidation or dissolution,

(ii) a receiver or receiver-manager has been appointed in respect of all or part of the *Dealer Member's* undertaking or property or all or part of the undertaking or property of a parent corporation or control person of the *Dealer Member*,

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(iii) the *Dealer Member* has tendered its resignation, is not carrying on business as an investment dealer or is in the process of winding up or terminating its business as an investment dealer,

(iv) the *Dealer Member's* registration as a dealer under *securities laws* has lapsed or been suspended or terminated,

(v) a *securities regulatory authority*, *Marketplace*, *SRO* or clearing agency has suspended the *Dealer Member's* membership or privileges,

(vi) the *Dealer Member* has been convicted of contravening a law relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading,

(vii) the *Dealer Member's* continued operation would create a risk of imminent harm to its clients, investors, other *Regulated Persons* or *IIROC* because the *Dealer Member:*

(a) is in financial or operating difficulty, or

(b) has failed to cooperate in respect of an *investigation*, or

(viii) the *Dealer Member* has not complied with terms or conditions of a *sanction* or a prohibition under Part B of Rule 4100 (early warning level 2) to which it is subject.

(3) After a *hearing* under this section with respect to a *Regulated Person*, other than a *Dealer Member*, a *hearing panel* may make one or more of the orders set out in subsection 8212(4), if it finds that:

(i) the *person's* registration under *securities laws* has lapsed or been suspended or terminated,

(ii) a *securities regulatory authority* has made an order prohibiting the *person* from trading in securities, acting as a director or officer of a market participant or as a promoter, or engaging in investor relations activities, or has denied the *person* the use of an exemption under *securities laws,*

(iii) a *Marketplace*, *SRO* or clearing agency has suspended the *person* or the *person's* privileges,

(iv) the *person* has been convicted of contravening a law relating to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading,

(v) the *person's* continued approval would create a risk of imminent harm to clients, investors, other *Regulated Persons* or *IIROC* because the *person* has failed to cooperate in respect of an *investigation*, or

(vi) the *person* has not complied with terms or conditions of a *sanction* to which the *person* is subject.

(4) After a *hearing* under this section, a *hearing panel* may make an order:

(i) suspending membership, approval or access to a *Marketplace* on any terms and conditions,

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(ii) with terms and conditions, requiring a *Dealer Member* that is suspended under this section to take steps to facilitate the orderly transfer of its client accounts to another *Dealer Member*,

(iii) imposing terms and conditions on continued membership, approval or access to a *Marketplace*,

(iv) directing immediate cessation of any or all dealing with clients or any other *persons*,

(v) expelling a *Dealer Member* from *IIROC* and terminating the rights and privileges of *Membership*,

(vi) revoking approval or access to a *Marketplace*, or

(vii) appointing a *Monitor* over a *Dealer Member's* business and affairs.

(5) A *person* may request, in writing, a review by a *hearing panel* of a *decision* made after a *hearing* under this section, within 30 days after the effective date of the *decision*.

(6) A *hearing* shall be held as soon as practicable, and no later than 21 days, after a review is requested under subsection 8212(5), unless the *person* requesting the review and *Enforcement Staff* agree otherwise.

(7) A member of a *hearing panel* whose *decision* is the subject of a review under this section may not be a member of the *hearing panel* on the review.

(8) A *hearing panel* may stay an order made under subsection 8212(4), subject to any terms and conditions it considers appropriate.

(9) On a review under this section, a *hearing panel* may:

(i) affirm the order,

(ii) quash the *decision*,

(iii) vary the *decision* or order, or

(iv) make any order authorized by subsection 8212(4).

8213. Monitor

(1) If a *hearing panel* appoints a *Monitor* under section 8209 or section 8212 with respect to the business and affairs of a *Dealer Member*, the *Monitor* has authority to supervise and monitor the *Dealer Member's* business and affairs in accordance with the terms and conditions imposed by the *hearing panel*.

(2) A *hearing panel* may impose any terms and conditions, and any time periods, on a *Monitor's* authority with respect to a *Dealer Member's* business and affairs that the *hearing panel* considers appropriate, including authority to:

(i) enter the *Dealer Member's* premises and conduct day-to-day monitoring of the *Dealer Member's* business activities,

(ii) monitor and review accounts receivable, accounts payable, client accounts, margin, client free credits, banking arrangements and transactions, trading conducted by the *Dealer Member* for clients and for its own account, payment of debts, creation of new

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debt and the *Dealer Member's* books and *records*,

(iii) make copies of any *records* or other documents and provide copies of such *records* and documents to *IIROC* or any other regulatory or self-regulatory authority,

(iv) report the *Monitor's* findings or observations, on an ongoing or other basis, to *IIROC* or any other regulatory or self-regulatory authority,

(v) monitor the *Dealer Member's* compliance with any terms or conditions imposed on the *Dealer Member* by *IIROC* or any other regulatory or self-regulatory authority or by the *hearing panel*, including compliance with any early warning terms and conditions,

(vi) verify and assist with the preparation of any regulatory filings, including the calculation of *risk adjusted capital*,

(vii) conduct or have conducted an appraisal of the *Dealer Member's* net worth or a valuation of any of the *Dealer Member's* assets,

(viii) assist the *Dealer Member's employees* in facilitating the orderly transfer of the *Dealer Member's* client accounts, and

(ix) pre-authorize cheques issued or payments made by or on behalf of the *Dealer Member* or distribution of any of the *Dealer Member's* assets.

(3) A *Dealer Member* must cooperate with the *Monitor*, require its *employees*, partners, *Directors* and *officers* to cooperate with the *Monitor* and take all reasonable steps to have its *affiliates* and service providers cooperate with the *Monitor* with respect to the exercise by the *Monitor* of its authority under this section.

(4) The *Dealer Member* must pay all expenses relating to a *Monitor* appointed to monitor the *Dealer Member's* business and affairs, including the *Monitor's* fees.

(5) *IIROC* staff, a *Monitor*, or a *Dealer Member* subject to a *Monitor* may at any time apply to a *hearing panel* for directions concerning the *Monitor's* authority or the conduct of the *Monitor's* activities.

(6) On an application under subsection 8213(5), a *hearing panel* may make any order it considers appropriate.

8214. Costs

(1) After a *hearing* under Rule 8200, other than a *hearing* under section 8211, a *hearing panel* may order a *person* who is the subject of a *sanction* to pay any costs incurred by or on behalf of *IIROC* in connection with the *hearing* and any *investigation* related to the *hearing*.

(2) Costs ordered under subsection 8214(1) may include:

(i) costs for time spent by *IIROC* staff,

(ii) fees paid by *IIROC* for legal or accounting services or for services rendered by an expert witness,

(iii) witness fees and expenses,

(iv) costs of recording and transcribing evidence and preparation of transcripts, and

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(v) disbursements, including travel costs.

8215. Settlements and settlement hearings

(1) *Enforcement Staff* may agree in a *settlement agreement* to settle a proceeding or proposed proceeding against a *Regulated Person* at any time prior to the conclusion of a *disciplinary hearing*.

(2) A *settlement agreement* must contain:

(i) a statement of the contraventions agreed to by the *respondent,* with references to the relevant *IIROC requirements* and *applicable laws,*

(ii) the agreed facts,

(iii) the *sanctions* and costs to be imposed on the *respondent,*

(iv) a waiver by the *respondent* of all rights to any further *hearing*, appeal and review,

(v) a provision that *Enforcement Staff* will not initiate any further action against the *respondent* in relation to the matter addressed in the *settlement agreement*,

(vi) a provision that the *settlement agreement* is conditional on acceptance by a *hearing panel*,

(vii) a provision that the *settlement agreement* and its terms are confidential, unless and until it has been accepted by a *hearing panel*,

(viii) a provision that the *parties* will not make any public statement that is inconsistent with the *settlement agreement*, and

(ix) any other provisions not inconsistent with clauses 8215(2)(i) through 8215(2)(viii) that the *parties* agree to include in the *settlement agreement*.

(3) Discussions relating to settlement are on a without prejudice basis to *Enforcement Staff* and any other *person* participating in the discussions and must not be used as evidence or referred to in any proceeding.

(4) A *settlement agreement* may impose any obligations on a *respondent* to which the *respondent* agrees, whether or not they could be imposed by a *hearing panel* under Rule 8200.

(5) After a *settlement hearing*, a *hearing panel* may accept or reject a *settlement agreement*.

(6) A *settlement agreement* becomes effective and binding on the *parties* to it upon acceptance by a *hearing panel*.

(7) If a *settlement agreement* is accepted by a *hearing panel*, any *sanction* imposed under it is deemed to have been imposed under Rule 8200.

(8) If a *settlement agreement* is rejected by a *hearing panel*,

(i) either:

(a) the *parties* may agree to enter another *settlement agreement*, or

(b) *Enforcement Staff* may proceed to a *disciplinary hearing* based on the same or related allegations and charges,

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and

(ii) the *hearing panel's* reasons for rejecting the *settlement agreement* must be made available to a *hearing panel* considering a subsequent *settlement agreement* based on the same or related allegations and charges, but must not be made public or referred to in a subsequent *disciplinary hearing*.

(9) A member of a *hearing panel* that rejects a *settlement agreement* may not be a member of a *hearing panel* that considers a subsequent *settlement agreement* or conducts a *disciplinary hearing* based on the same or related allegations.

8216. Failure to pay fine or costs

(1) If a *Regulated Person* does not pay a fine, costs or other amount ordered to be paid by a *hearing panel* or required to be paid under a *settlement agreement*, *IIROC* may, seven *days* after sending written notice, summarily suspend the *Membership* of the *Regulated Person* and all rights and privileges of the *Regulated Person* relating to approval or access to a *Marketplace*, until the fine, costs or other amount has been paid.

8217. Review by a securities regulatory authority

(1) A *party* to a proceeding under Rule 8200 may apply to the *securities regulatory authority* in the relevant *District* for review of a final *decision* in the proceeding.

(2) A *person* who is entitled to request a review of a *decision* under section 8212 or is the subject of a *decision* making a temporary order under section 8211 may not apply to a *securities regulatory authority* for review of the *decision*, unless the *person* has requested a review or other *hearing* by a *hearing panel* and the *hearing panel* has made a final *decision*.

(3) For purposes of subsection 8217(1), *Enforcement Staff* is directly affected by a *decision* in a proceeding in which *Enforcement Staff* is a *party*.

8218. – 8299. Reserved.

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RULE 8300

HEARING COMMITTEES

8301. Introduction

(1) Rule 8300 requires a *hearing committee* in each *District* from which *hearing panels* must be selected for enforcement and other proceedings and sets out the process for appointing and removing members of *hearing committees*.

8302. Definitions

(1) The following terms have the meaning set out below when used in Rule 8300:

"Corporate Governance Committee"	The Corporate Governance Committee established by the *Board*.
"public member nominating committee"	In each *District*, a committee composed of the chair of the *Corporate Governance Committee*, the chair of the *District Council* and the *President*.

8303. Hearing committees

(1) A *hearing committee* must be appointed for each *District*.

(2) A member of a *hearing committee* of a *District* must reside in the *District*.

(3) Two thirds of the members of a *hearing committee*, to the extent practicable, must be *industry members*.

(4) One third of the members of a *hearing committee*, to the extent practicable, must be *public members*.

(5) The chair of a *hearing committee* must be a *public member*.

8304. Nominations

(1) A *District Council* must nominate *individuals* to be *industry members* of the *hearing committee* in its *District*.

(2) A *Marketplace Member* must nominate *individuals* to be *industry members* of the *hearing committee* in a *District* in which the *Marketplace Member:*

(i) is recognized or exempt from recognition as an exchange or Quotation and Trade Reporting System under *securities laws*, or

(ii) if an Alternative Trading System, is registered under *securities laws*.

(3) The *public member nominating committee* in each *District* must nominate *individuals* to be *public members* of the *hearing committee* in the *District*.

(4) To the extent practicable, two thirds of the *individuals* who are nominated in a *District* must be nominated by a *District Council* or a *Marketplace Member* and one third must be nominated by

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the *public member nominating committee*.

8305. Appointment

(1) The *Corporate Governance Committee* must appoint to the *hearing committee* of each *District* a number of suitable and qualified *individuals* sufficient to conduct *hearings* in the *District*.

(2) In considering the suitability and qualifications of an *individual* who is nominated for membership on a *hearing committee*, the *Corporate Governance Committee* must take into account the *individual's:*

(i) general knowledge of business practices and *securities laws*,

(ii) experience,

(iii) regulatory background,

(iv) availability for *hearings*,

(v) reputation in the securities industry,

(vi) ability to conduct *hearings* in French or English, and

(vii) *Districts* in which *individuals* would be entitled to serve.

(3) An *individual* who:

(i) is currently or has been within the previous eighteen months an employee of a *Member,* a *Regulated Person,* or an *affiliate* of a *Member* or *Regulated Person*,

(ii) represents any *parties* to enforcement or other proceedings under *IIROC requirements* or any *person* in connection with *IIROC requirements*, or

(iii) would otherwise raise a reasonable apprehension of bias with respect to matters that may come before a *hearing panel*,

is not eligible for appointment or membership as a *public member* of a *hearing committee*.

(4) The *Corporate Governance Committee* must appoint a chair of each *hearing committee*.

8306. Term of appointment

(1) Appointment of an *individual* to a *hearing committee* is for a three-year term.

(2) A *hearing committee* member may be reappointed to successive terms.

(3) If a *hearing committee* member's term expires without reappointment during a *hearing* in which the member is serving on the *hearing panel*, the member's term is extended automatically until the completion of the *hearing* or if the *hearing* is a *hearing* on the merits, the proceeding.

8307. Removal

(1) The *Corporate Governance Committee* may remove a *hearing committee* member who:

(i) ceases to reside in the *hearing committee's District*,

(ii) is precluded from acting as a *hearing committee* member by a law applicable in the *District*,

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(iii) in the *Corporate Governance Committee's* opinion, will raise a reasonable apprehension of bias with respect to matters that may come before a *hearing panel*, or

(iv) for any other reason, ceases to be suitable or qualified to be a *hearing committee* member.

(2) An *individual* who is removed by the *Corporate Governance Committee* must not continue to serve on a *hearing panel* in any proceeding.

8308. – 8399. Reserved.

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RULE 8400

RULES OF PRACTICE AND PROCEDURE

8401. Introduction

(1) The *Rules of Procedure* set out the rules that govern the conduct of *IIROC's* enforcement proceedings and regulatory review *hearings* to secure fair and efficient proceedings and just determinations.

(2) Rule 8400 is divided into the following parts:

Part A - General

[sections 8403 through 8413]

Part B - Enforcement proceedings

[sections 8414 through 8429]

Part C - Regulatory review hearings

[section 8430]

Part D - Securities regulatory authority review

[section 8431]

8402. Definitions

(1) The following terms have the meaning set out when used in Rule 8400:

"application"	An application that commences a proceeding under Rule 8200 and includes an application for a temporary order or a protective order.
"commencing notice"	A notice of *hearing*, notice of *application*, notice of motion, notice of *prehearing conference* and notice of request for review.
"decision"	A determination made by a *hearing panel*.
"document"	Includes a record, sound recording, videotape, film, photograph, chart, graph, map, plan, survey, book of account, and information recorded or stored by means of any electronic or other device.
"electronic hearing"	A *hearing* held by conference telephone or another form of electronic technology that allows persons to hear one another.
"file"	A file with the *National Hearing Coordinator* in accordance with section 8406.
"oral hearing"	A *hearing* at which the parties or their counsel or agents attend before a *hearing panel* in person.
"prehearing conference"	A prehearing conference held pursuant to section 8416.
"regulatory decision"	A decision made under sections 9204, 9206 or 9207 or Part B of

	Rule 4100.
"requesting party"	A *person* who requests a review *hearing* under sections 8427 or 8430.
"responding party"	A *person* responding to a motion or to a request for a review *hearing* under sections 8427 or 8430.
"written hearing"	A *hearing* held by means of an exchange of documents, whether in hard copy or by electronic means.

Part A - GENERAL

8403. General principles

(1) The *Rules of Procedure* shall be interpreted and applied to secure a fair *hearing* and just determination of a proceeding on its merits and the most expeditious and least expensive conduct of the proceeding.

(2) No proceeding, *document* or *decision* in a proceeding is invalid by reason of a defect or other irregularity in form.

(3) Subject to a requirement in the *Rules of Procedure*, a *hearing panel* has authority to control the process of a proceeding before it and may exercise any of its powers on its own initiative or at the request of a *party*, including:

(i) issuing procedural directions or orders with respect to the application of the *Rules of Procedure* in respect of any proceeding,

(ii) imposing terms or conditions in a direction or order,

(iii) admitting or requiring presentation of evidence on oath, affirmation or otherwise,

(iv) waiving or varying any *Rule of Procedure* in respect of a proceeding,

(v) requiring *parties* to *file documents* electronically, and

(vi) at the request of a *party*, making an interim *decision* or order, including a *decision* or order that is subject to terms and conditions.

(4) At the request of a *party*, a *hearing panel* may provide for any procedural matter that is not provided for in *IIROC requirements* or the *Rules of Procedure* by analogy to the *Rules of Procedure* or by reference to the rules of practice or procedure of another *SRO* or professional association or to the rules applicable to a *securities regulatory authority*.

8404. Time

(1) When computing time under the *Rules of Procedure*:

(i) the number of days between two events are counted by excluding the day on which the first event occurs and including the day on which the second event occurs,

(ii) if a period of less than seven days is prescribed, only *business days* are to be counted,

(iii) if the time for doing an act expires on a day that is not a *business day*, the act may be done on the next *business day*, and

(iv) a document that is served or filed after 4 p.m. in the time zone of the recipient is

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deemed to have been served or filed on the next *business day*.

(2) A time period prescribed by the *Rules of Procedure* may be extended or abridged:

(i) before its expiration, on consent of the *parties,* or

(ii) before or after its expiration, by a *hearing panel* on any terms and conditions the *hearing panel* considers appropriate.

8405. Appearance and representation

(1) A *party* in a proceeding may be self-represented or may be represented by counsel or an agent.

(2) A self-represented *party* must *file* and keep current during a proceeding the *party's* address, telephone number, facsimile number and email address, as applicable.

(3) A *person* who appears as counsel or agent for a *party* in a proceeding must *file* and keep current during the proceeding the *person's* address, telephone number, facsimile number and email address, as applicable, and the name and address of the *party* represented.

(4) A *party* who is represented by counsel or an agent may:

(i) change the counsel or agent by serving on the counsel or agent and on every other *party*, and *filing*, a notice of change giving the name, address, telephone number, facsimile number and email address of the new counsel or agent, as applicable, or

(ii) elect to act in person by serving on the counsel or agent and on every other *party,* and *filing*, a notice of intention to act in person, giving the *party's* address, telephone number, facsimile number and email address, as applicable.

(5) A *party* who appoints a new counsel or agent in the course of a proceeding must comply with clause 8405(4)(i).

(6) Counsel or an agent for a *party* may withdraw as counsel or agent by serving on the *party* and other *parties* and *filing* a written notice of withdrawal.

(7) If counsel or an agent for a *party* seeks to withdraw as counsel or agent less than 30 days prior to the date on which a matter is scheduled to be heard by a *hearing panel*, the counsel or agent may withdraw only with leave of the *hearing panel* obtained on a motion.

(8) Where a *party* is represented by counsel or an agent:

(i) *documents* served on the *party* must be served on the *party's* counsel or agent, unless the *Rules of Procedure* require otherwise,

(ii) communications with the *party* must be with the *party's* counsel or agent, and

(iii) *the party* must address a *hearing panel* through the *party's* counsel or agent.

8406. Service and filing

(1) A document required to be served under the *Rules of Procedure* must be served on all *parties* to the proceeding.

(2) A notice of *hearing* under section 8414, a notice of *application* under section 8425 or 8426, a notice of request for review from a *decision* made under Rule 9200 and a *decision* of a *hearing*

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panel on the merits of such a proceeding that is served on an *Approved Person* must, for information purposes, be sent concurrently to the *Dealer Member* that employs the *Approved Person*.

(3) Subject to subsection 8406(4), a *document* required to be served must be served by one of the following methods:

(i) personal delivery to the *party*,

(ii) delivery to the *party's* counsel or agent,

(iii) delivery to an adult person at the *party's* place of residence, employment or business or the place of business of the *party's* counsel or agent,

(iv) if the *party* is a corporation, delivery to an officer, director or agent of the corporation or a *person* at any place of business of the corporation who appears to be in control or management of the place of business,

(v) if the *party* is a partnership, delivery to a partner or a *person* at any place of business of the partnership who appears to be in control or management of the place of business,

(vi) mail or courier to the last known address of the *party* or the *party's* counsel or agent,

(vii) electronic transmission to the facsimile number or e-mail address of the *party* or the *party's* counsel or agent, or

(viii) by any other means authorized by a *hearing panel*.

(4) A notice of *hearing* and a notice of *application* must be served by:

(i) personal delivery to the *party*,

(ii) registered mail to the *party's* last known address,

(iii) delivery to the *party's* counsel or agent, with the consent of counsel or the agent,

(iv) any other method set out in subsection 8406(3) to which the *party* consents, or

(v) any other means authorized by a *hearing panel*.

(5) Service of a *document* is deemed to be effective, when delivered no later than 4 p.m. in the time zone of the recipient:

(i) by delivery, on the day of delivery,

(ii) by mail, on the fifth day after mailing,

(iii) electronically, on the day of transmission,

(iv) by courier, on the earlier of the day noted on the delivery receipt or the second day after the day on which it was given to the courier, or

(v) by any other means authorized by a *hearing panel*, on the day the *document* is served by the means so authorized.

(6) Service of a *document* may be proved by an affidavit of the *person* who served it.

(7) A *document* required to be *filed* under the *Rules of Procedure* must be *filed* by delivering or sending by mail, courier or facsimile transmission four copies of the *document*, with proof of service, to the *National Hearing Coordinator* at *IIROC's* offices in the *District* in which the

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proceeding is conducted.

(8) The *National Hearing Coordinator* may:

(i) require more or permit fewer than four copies of a *document* to be *filed*, and

(ii) permit or require *filing* of a *document* by e-mail, provided that the *party* also *files* four printed copies forthwith.

(9) A *party* who serves or *files* a *document* must include with it:

(i) the *party's* name, address, telephone number, facsimile number and e-mail address, as applicable, or

(ii) if the *party* is represented by counsel or an agent, the name, address, telephone number, facsimile number and e-mail address of the *party's* counsel or agent,

(iii) the name of the proceeding to which the *document* relates, and

(iv) the name of each *party*, counsel or agent served with the *document*.

(10) Subject to *IIROC requirements*, a *document* that is *filed* must be made available by the *National Hearing Coordinator* for public inspection in the office in which the *document* is filed during *IIROC's* normal business hours, unless confidentiality is requested and a *hearing panel* applying the standard in clause 8203(5)(iii) or 8203(5)(iv) orders otherwise.

8407. National Hearing Coordinator

(1) The *National Hearing Coordinator* administers all proceedings brought pursuant to the *Rules of Procedure*, including:

(i) the selection of members of *hearing panels*,

(ii) scheduling and arranging *hearings* and *prehearing conferences*,

(iii) care, custody and distribution to members of *hearing panels* of *filed documents*,

(iv) maintaining a *hearing* record, including original exhibits,

(v) dating and distributing written *hearing panel decisions* and reasons to *parties* to a proceeding,

(vi) issuing and serving a notice or summons to attend and testify or produce *documents*, where so authorized by a *decision* of a *hearing panel*, and

(vii) any other administrative functions that are reasonably necessary for the efficient conduct of a proceeding.

(2) The *National Hearing Coordinator* acts as liaison between members of a *hearing panel* and *parties* to a proceeding and, other than in the course of an *oral hearing* or *electronic hearing*, a *party* must communicate to a *hearing panel* through the *National Hearing Coordinator* and serve all other *parties* with the communication.

(3) The *National Hearing Coordinator* may seek the advice of the chair of a *hearing committee* with respect to legal, administrative or procedural issues.

(4) The *National Hearing Coordinator*, after consultation with the chairs of the *hearing committees* in all *Districts*, may publish on *IIROC's* website guidelines concerning practices to be followed

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under the *Rules of Procedure*.

(5) The *National Hearing Coordinator* may prescribe the form and format of *documents* and forms that are required to be *filed* under the *Rules of Procedure*.

(6) The *National Hearing Coordinator* may designate *individuals* to perform the functions for which the *National Hearing Coordinator* is responsible under the *Rules of Procedure*.

8408. Hearing panels

(1) The *National Hearing Coordinator* is responsible for the selection of members of a *hearing panel* from members of a *hearing committee*.

(2) In connection with the selection of a *hearing panel*, the *National Hearing Coordinator* may consult with or seek the advice of the chair of a *hearing committee*.

(3) For a *hearing* under sections 8209, 8210, 8215 or Rule 9300, the *National Hearing Coordinator* must, subject to subsections 8408(4) and 8408(6), select two *industry members* and one *public member* from the *hearing committee* of the applicable *District* as members of the *hearing panel*.

(4) If the chairs of both *hearing committees* consent, the *National Hearing Coordinator* may select a member of a *hearing committee* in one *District* to serve on a *hearing panel* in another *District*, but a *hearing panel* that considers a matter that relates to conduct in Québec must have a majority of members who reside in Québec.

(5) The *National Hearing Coordinator* must appoint a *public member* as the chair of a *hearing panel*, and if the matter relates to conduct in Québec, the chair must be a *public member* of the *hearing committee* in the Québec *District*.

(6) The *National Hearing Coordinator* may appoint a one-member *hearing panel* consisting of a *public member* of a *hearing committee* in a proceeding under section 8211 or section 8212, a motion or *prehearing conference*, or to act as case manager of a proceeding.

(7) The *National Hearing Coordinator* must not select an *individual* to be a member of a *hearing panel*, if the *individual:*

(i) is an officer, partner, director, employee or *associate* of, or is providing services to, a *party* or if a *party* is an *affiliate*, *associate* or employee of another *person* with whom the *individual* is in such a relationship,

(ii) has or had another relationship to a *party* or matter that may create a reasonable apprehension of bias,

(iii) is precluded from acting as a member of the *hearing panel* by *IIROC requirements*, any law applicable in the *District* in which the *hearing* is held or by the recognition order or registration under *securities laws* of a *Marketplace* whose rules are the subject of the *hearing*, or

(iv) was consulted by or advised the *National Hearing Coordinator* in connection with the selection of the *hearing panel*.

(8) The *National Hearing Coordinator* may not select an *individual* who is a member of a *hearing*

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panel in a proceeding under sections 8211 or 8212 as a member of a *hearing panel* on a subsequent *hearing* relating to the same matter, including a motion for a stay of a *sanction* imposed under section 8212, unless all *parties* consent to the selection of the member.

(9) The *National Hearing Coordinator* may not select a member of a *hearing panel* who participates in a *prehearing conference* or who case manages a proceeding to be a member of the *hearing panel* on the merits, unless all *parties* consent to the selection of the member.

(10) If a member of a *hearing panel* becomes unable to continue to serve as a member of the *hearing panel* for any reason, the remaining members may continue to hear the matter and render a *decision*, but only with the consent of all *parties*, and if neither of the remaining members is the chair, the *hearing panel* may retain its own legal counsel to advise it on legal and procedural issues, but not on the merits of the proceeding.

(11) A *decision* of a *hearing panel* must be made by a majority of its members, and if the *hearing panel* consists of two members, must be unanimous.

8409. Form of hearings

(1) Subject to subsections 8409(2) through 8409(9), a *hearing panel* may conduct a *hearing* as an *oral hearing*, *electronic hearing* or *written hearing*.

(2) Subject to subsections 8409(3) through 8409(9), a *written hearing* may be held only for:

(i) a motion relating to procedural issues,

(ii) a *hearing* on agreed facts, and

(iii) any other motion or *hearing* that a *hearing panel* considers appropriate.

(3) In determining whether to hold a *hearing* as an *oral hearing*, *electronic hearing* or *written hearing*, a *hearing panel* may consider any relevant factors, including:

(i) the nature of the *hearing*, the subject matter of the *hearing*, and the issues to be addressed, including whether they are issues of fact, law or procedure,

(ii) the evidence to be presented, including whether facts are in dispute and credibility is an issue,

(iii) the cost, efficiency and timeliness of the *hearing* or the proceeding,

(iv) the fairness of the *hearing* process to, and the convenience of, each of the *parties*, and

(v) accessibility to the public.

(4) A *party* may request an *electronic hearing* or *written hearing* in a *commencing notice*.

(5) If an *electronic hearing* or *written hearing* is requested:

(i) in a notice of *hearing*, a *party* may object to the requested form of *hearing* in the *party's* response or by bringing a motion,

(ii) in a *commencing notice* other than a notice of *hearing*, a *party* may object to the requested form of *hearing* by serving and *filing* a notice of objection within three days after the *commencing notice* is served on the *party*.

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(6) A notice of objection must state the reasons for the objection, including any prejudice the requested form of *hearing* may cause the *party* and the facts on which the *party* relies and may be accompanied by any evidence on which the *party* relies for the objection.

(7) A *hearing panel* that receives a notice of objection may:

(i) accept the objection and refer the matter to the *National Hearing Coordinator* to set a date for an *oral hearing* or, with the consent of all *parties*, set a date for an *electronic hearing* or schedule for a *written hearing*,

(ii) reject the objection, or

(iii) order a *written hearing* to consider the objection and provide other *parties* an opportunity to respond to the notice of objection in a manner and time that the *hearing panel* directs.

(8) If a notice of objection is filed, the *hearing panel* must render its *decision* on the form of *hearing* in writing as expeditiously as possible, taking into consideration the date and nature of the *hearing* and proceeding and the needs of the *parties* to present evidence and prepare and serve submissions and responding submissions.

(9) Unless a *party* objects, a *hearing panel* may, on its own motion, at any stage of a proceeding make an order continuing:

(i) an *electronic hearing* or *written hearing* as an *oral hearing*,

(ii) an *oral hearing* or a *written hearing* as an *electronic hearing*, and

(iii) an *oral hearing* or an *electronic hearing*, as a *written hearing*.

(10) A *hearing panel* that orders an *electronic hearing* may require one or more of the *parties*

(i) to make the arrangements for the *hearing*, and

(ii) to pay all or part of the costs of conducting the *hearing* as an *electronic hearing*.

8410. Hearing panel decisions

(1) A *decision* of a *hearing panel* and the reasons for the *decision* must be dated by the *National Hearing Coordinator* and served on each *party* in accordance with subsection 8406(3).

(2) *IIROC* must publish on its website a summary of the *decision* of a *hearing panel*, except a *decision* in a *prehearing conference*, containing:

(i) *IIROC requirements* or *applicable laws* that have been contravened,

(ii) the essential facts,

(iii) the *decision*, including any *sanction* and costs, and

(iv) except where the *decision* rejects a *settlement agreement*, a statement that a copy of the *decision* may be obtained on *IIROC's* website.

(3) *IIROC* must publish on its website a *decision* of a *hearing panel* and the reasons for the *decision*, except a *decision* and reasons rejecting a *settlement agreement*.

(4) A *decision* made by a *hearing panel* on the merits of a proceeding must be recorded in the

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record maintained by *IIROC* with respect to the *respondent*.

(5) In addition to a *decision* accepting a *settlement agreement* and the reasons for it, *IIROC* must publish and record information concerning the accepted *settlement agreement* in accordance with subsections 8410(2) through 8410(4), as if the *settlement agreement* were a *decision* on the merits.

8411. Language of hearings and interpreters

(1) A *hearing* may be conducted in English or French or partly in English or French.

(2) A *hearing* in a *District* other than Québec must be conducted in English, unless the *parties*, with the consent of a *hearing panel*, agree that it be conducted in French.

(3) A *hearing* in Québec must be conducted in French, unless the *parties*, with the consent of a *hearing panel,* agree that it be conducted in English.

(4) A *party* who wishes a *hearing* to be conducted in French, or in Québec in English, must *file* a request with the *National Hearing Coordinator* as soon as possible after the proceeding is commenced.

(5) A *party* who requires an interpreter for a language other than the language in which a *hearing* is to be conducted, whether to assist the *party* or for the testimony of a witness to be called by the *party*, must notify the *National Hearing Coordinator* at least 30 days before the commencement of the *hearing*.

(6) An interpreter must be competent and independent and must swear or affirm to interpret accurately.

8412. Commencement and abandonment of proceedings

(1) A proceeding, and a step in a proceeding that requires a notice, is commenced upon the issuance by the *National Hearing Coordinator* of a *commencing notice* at the request of a *party*.

(2) A *party* who requests the issuance of a *commencing notice* must first obtain a date from the *National Hearing Coordinator* for:

(i) if the *commencing notice* is a notice of *hearing*, an initial appearance before a *hearing panel*,

(ii) if the *commencing notice* is a notice of *application*, the *hearing* of the *application*,

(iii) if the *commencing notice* is a notice of motion, the *hearing* of the motion,

(iv) if the *commencing notice* is a notice of *prehearing conference*, the *prehearing conference*, or

(v) if the *commencing notice* is a notice of request for review pursuant to sections 8427 or 8430*,* the review *hearing*,

and must submit a copy of the *commencing notice* to the *National Hearing Coordinator* with a request that it be issued.

(3) A request under subsection 8412(2) to the *National Hearing Coordinator* for a date or the

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issuance of a *commencing notice* must be made on a form prescribed by the *National Hearing Coordinator*.

(4) If a *hearing panel* sets a date for a *prehearing conference*, or other *hearing* other than in connection with a *commencing notice*, the *National Hearing Coordinator* must give written notice of the date to the *parties* by mail or electronic transmission in accordance with clause 8406(3)(vi) or 8406(3)(vii).

(5) Upon issuing a *commencing notice* or other notice of a *hearing*, the *National Hearing Coordinator* must place a copy of the *commencing notice* or other notice in a file maintained for the proceeding.

(6) *IIROC* must publish on *IIROC's* website an announcement of and copy of a *commencing notice* or other notice as soon as practicable after it is issued by the *National Hearing Coordinator*, unless the *commencing notice* is for an *application* under section 8211 made without notice to the *respondent* or is a notice of *prehearing conference*.

(7) A *party* who initiates a proceeding or a step in a proceeding that requires a notice may abandon the proceeding or step before it has been decided by a *hearing panel* by serving and *filing* a notice of abandonment.

(8) If a proceeding or a step in a proceeding is abandoned, *IIROC* must publish on *IIROC's* website an announcement of and a copy of the notice of abandonment as soon as practicable after it is *filed*, unless the *commencing notice* for the proceeding or step has not been so published.

8413. Motions

(1) A motion must be commenced by a notice of motion.

(2) A motion may be brought:

(i) with the consent of a *hearing panel*, prior to, or

(ii) at any time after,

the commencement of a proceeding.

(3) A *party* who brings a motion must serve and *file* a motion record at least 14 days prior to the date of the motion, unless the motion is brought during a *hearing*, in which case the *hearing panel* may determine the procedure to be followed for the motion.

(4) A *hearing panel* may permit a *party* to bring a motion without notice to the *respondent*, if the nature of the motion or the circumstances make service of a notice of motion impractical.

(5) A notice of motion must contain:

(i) the date, time and location of the *hearing* of the motion,

(ii) the relief sought,

(iii) a summary of the grounds for the relief sought, including reference to any *IIROC requirements* or *applicable laws*,

(iv) a list of evidence and other materials to be relied on, and

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(v) whether it is proposed that the motion be heard as an *oral hearing*, *electronic hearing* or *written hearing*.

(6) A motion record must contain:

(i) the notice of motion, and

(ii) copies of the evidence, including affidavits and other materials relied on.

(7) A *responding party* may serve and *file* a responding record at least nine days prior to the date of the motion, unless the motion is brought during a *hearing* and the *hearing panel* orders otherwise.

(8) A responding record must contain:

(i) the order requested by the *responding party*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(9) A *party* who is served with a responding record that contains affidavit evidence may serve and *file* a reply record containing additional affidavit evidence at least seven days before the date of the motion.

(10) A *party* who *files* an affidavit in connection with a motion must make the person who swears to an affidavit reasonably available to be cross-examined by an adverse *party* prior to the *hearing* of the motion.

(11) A *party* who brings a motion may serve and *file* a memorandum of fact and law at least five days before the date of the motion.

(12) A *responding party* may serve and *file* a memorandum of fact and law at least two days before the date of the motion.

(13) A motion must be heard by a *hearing panel*.

(14) A *hearing panel* may, on any terms and conditions it considers appropriate, permit oral testimony to be adduced at the *hearing* of a motion on any matter in issue and allow cross-examination of the person who swears to an affidavit.

(15) A *hearing panel* may:

(i) grant the relief requested in a motion,

(ii) dismiss or adjourn the motion in whole or in part, with or without terms, or

(iii) make another *decision* it considers appropriate, including adjourning the motion to be heard by the *hearing panel* that hears the proceeding on its merits.

Part B - ENFORCEMENT PROCEEDINGS

8414. Commencement of disciplinary proceedings

(1) Forthwith after a proceeding pursuant to section 8209 or 8210 is commenced, *Enforcement Staff* must serve the *respondent* with, and *file*, the notice of *hearing* and a statement of allegations.

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(2) A notice of *hearing* must contain:

(i) the date, time and location of an initial appearance before a *hearing panel*,

(ii) a statement of the purpose of the proceeding,

(iii) a statement that the allegations on which the proceeding is based are contained in the statement of allegations,

(iv) a reference to *IIROC requirements* under which the proceeding is brought,

(v) the nature of the *sanctions* that may be imposed,

(vi) if the notice of *hearing* states that the *hearing* is to be an *electronic hearing* or *written hearing*, a statement that the *respondent* may object to the type of *hearing* and the procedure to be followed for an objection,

(vii) a statement that the *respondent* must provide a response to the notice of *hearing* in accordance with section 8415, the time within which a response must be served and *filed* and the consequences of failing to do so,

(viii) a statement that the initial appearance will be followed immediately by an initial *prehearing conference*, for which a *prehearing conference* form must be *filed* in accordance with subsection 8416(5), and

(ix) any other information that *Enforcement Staff* considers advisable.

(3) A statement of allegations may accompany or comprise part of a notice of *hearing* and must contain:

(i) a reference to *IIROC requirements* or *applicable laws* that the *respondent* is alleged to have contravened,

(ii) the facts alleged in support of the alleged contraventions, and

(iii) the conclusions of *Enforcement Staff* based on the alleged facts.

(4) The date of an initial appearance set out in a notice of *hearing* must not be less than 45 days after the notice of *hearing* is served, unless the *respondent* consents to an earlier date.

8415. Response to a notice of hearing

(1) A *respondent* must serve and *file* a response within 30 days from the date of service of a notice of *hearing*.

(2) A response must contain a statement of:

(i) the facts alleged in the statement of allegations that the *respondent* admits,

(ii) the facts alleged that the *respondent* denies and the grounds for the denial, and

(iii) all other facts on which the *respondent* relies.

(3) A *hearing panel* may accept as proven any facts alleged in a statement of allegations that are not specifically denied or for which grounds for the denial are not provided in a response.

(4) If a *respondent* who has been served with a notice of *hearing* does not serve and *file* a response in accordance with subsection 8415(1), the *hearing panel* may proceed with the *hearing* of the

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matter on its merits on the date of the initial appearance set out in the notice of *hearing*, without further notice to and in the absence of the *respondent*, and the *hearing panel* may accept as proven the facts and contraventions alleged in the statement of allegations and may impose *sanctions* and costs pursuant to section 8209 or 8210, as applicable.

8416. Prehearing conferences

(1) At any time prior to commencement of the *hearing* of a proceeding on the merits:

(i) a *hearing panel* may order a *prehearing conference*, or

(ii) a *party* may request a *prehearing conference* by serving and *filing* a notice of *prehearing conference* at least 14 days before the date of the *prehearing conference*.

(2) A notice of *prehearing conference* must contain:

(i) the date, time, location and purpose of the *prehearing conference*,

(ii) any order of a *hearing panel* concerning the obligations of the *parties* with respect to the *prehearing conference*, including:

(a) any requirement concerning the exchange or *filing* of *documents* or submissions pursuant to subsection 8416(7), and if so the issues to be addressed and the date by which the *documents* or submissions must be exchanged and *filed*,

(b) whether the *parties* must attend in person,

(iii) a statement that the *parties* may be represented by counsel or an agent who, if a *party* is not required to attend, must have authority to make agreements and undertakings on the *party's* behalf,

(iv) whether it is proposed that the *prehearing conference* is to be heard orally, electronically or in writing,

(v) a statement that if a *party* does not attend in person or by counsel or an agent, the *hearing panel* may proceed with the *prehearing conference* in the *party's* absence, and

(vi) a statement that any orders made by the *hearing panel* will be binding on the *parties*.

(3) If a *hearing panel* orders a *prehearing conference*, the *National Hearing Coordinator* must set a date for the *prehearing conference*, if necessary, and serve a notice of *prehearing conference* on the *parties* with a copy of the *decision* of the *hearing panel*.

(4) If a *respondent* has served and *filed* a response in accordance with subsection 8415(1), the initial appearance provided in a notice of *hearing* must be followed immediately by an initial *prehearing conference*, for which no notice of *prehearing conference* is required.

(5) If a response has been served and *filed*, the *parties* must serve and *file* a *prehearing conference* form, in a form prescribed by the *National Hearing Coordinator*, at least five days before the date of the initial appearance specified in the notice of *hearing*.

(6) At a *prehearing conference*, a *hearing panel* may consider any issue that may assist in a just and expeditious resolution of the proceeding, including:

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(i) identification, simplification and clarification of the issues,

(ii) disclosure of *documents*, including expert reports,

(iii) facts or evidence on which the *parties* agree,

(iv) admissibility of evidence, including evidence to be admitted on consent and identification of objections,

(v) scheduling of motions,

(vi) procedural issues, including identifying and setting dates by which steps in the proceeding are to be commenced or taken, the estimated duration of a *hearing* and the dates on which the *hearing* will commence and be conducted,

(vii) settlement of any or all issues in the proceeding, and

(viii) any other procedural or substantive matters.

(7) A *hearing panel* at a *prehearing conference* may:

(i) set a timetable for steps preceding a *hearing* and for the *hearing*,

(ii) schedule further *prehearing conferences*, preliminary motions and the *hearing* of the proceeding on its merits,

(iii) amend an existing schedule or timetable,

(iv) set the issues to be addressed at a further *prehearing conference* or in a motion,

(v) order the *parties* to exchange or *file* by a specified date *documents* or submissions for purposes of a further *prehearing conference* or a motion,

(vi) order that the proceeding be case managed by the *hearing panel* or another *hearing panel* to be selected by the *National Hearing Coordinator*, with or without the consent of the *parties*,

(vii) exercise the authority conferred by section 8208 to require a *person* to attend and give evidence or produce *documents* at a *hearing,* and

(viii) with the consent of the *parties*, make an order resolving any matter, including matters relating to:

(a) facts or evidence agreed on,

(b) disclosure of *documents* or evidence,

(c) the resolution of any or all of the issues in the proceeding, and

(ix) make any other procedural order that the *hearing panel* believes will further the just and expeditious conduct of the proceeding.

(8) A *hearing panel* that case manages a proceeding must preside over all *prehearing conferences* and preliminary motions in the proceeding, unless the *hearing panel* orders otherwise.

(9) An order, agreement or undertaking that is made or given at a *prehearing conference* must be recorded in a prehearing memorandum that is:

(i) prepared by or under the direction of the *hearing panel* taking into account the principles in subsections 8416(12) and 8416(13),

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(ii) circulated to the *parties* for comment,

(iii) approved and signed by the *hearing panel,* and

(iv) distributed to the *parties* and any other *person* that the *hearing panel* directs.

(10) A prehearing memorandum must be *filed* and provided to the *hearing panel* at subsequent *hearings* in the proceeding.

(11) An order, agreement or undertaking recorded in a prehearing memorandum is binding on the *parties*, unless a *hearing panel* orders otherwise.

(12) Unless recorded in a prehearing memorandum, all statements and written submissions made at a *prehearing conference* are without prejudice and must not be communicated to a *hearing panel*, except at a subsequent *prehearing conference*.

(13) A *prehearing conference* must be held in the absence of the public, and subject to subsections 8416(9) and 8416(10), prehearing *documents*, exhibits, submissions and transcripts must not be disclosed to the public.

(14) A prehearing agreement to settle all of the issues in a proceeding is subject to approval by another *hearing panel* pursuant to section 8215.

8417. Disclosure

(1) As soon as is reasonably practicable after a response is served and *filed*, and if requested by the *respondent, Enforcement Staff* must disclose to and make available for inspection by a *respondent* all *documents* and things in *IIROC's* possession or control that are relevant to the proceeding, including *documents* and things that are relevant to the *respondent's* ability to make full answer and defence.

(2) *Enforcement Staff* must provide copies to, in hard copy or electronic form, or permit a *respondent* to make copies of all *documents* and things specified in subsection 8417(1) as soon as is reasonably practicable after it makes disclosure and no later than 40 days before the commencement of the *hearing* on the merits.

(3) As soon as is reasonably practicable after a response is served and *filed*, and no later than 40 days before the commencement of the *hearing* on the merits, each *party* to a proceeding must serve every other *party* with:

(i) all *documents* that the *party* intends to produce or enter as evidence at the *hearing* on the merits, and

(ii) a list of items, other than *documents*, that the *party* intends to produce or enter as evidence at the *hearing* on the merits.

(4) At any stage of a proceeding, a *hearing panel* may order a *party* to provide to another *party* any *document* or other information that the *hearing panel* considers appropriate, within a time period and on terms and conditions determined by the *hearing panel*.

(5) A *party* who does not disclose a *document* or thing in compliance with subsections 8417(3) and 8417(4) may not introduce in evidence or refer to the *document* or thing at a *hearing* on

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the merits without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8418. Witness lists and statements

(1) Subject to section 8417, as soon as reasonably practicable after a response is served and *filed*, and no later than 30 days before the commencement of the *hearing* on the merits, *Enforcement Staff* must serve:

(i) a list of the witnesses *Enforcement Staff* intends to call to testify at the *hearing*, and

(ii) in respect of each witness named on the list, a summary of the evidence the witness is expected to give at the *hearing*, a witness statement signed by the witness or a transcript of a recorded statement of the witness.

(2) Subject to section 8417, as soon as reasonably practicable after a response is served and *filed,* and no later than 20 days before the commencement of the *hearing* on the merits, a *respondent* must serve:

(i) a list of the witnesses, not including the *respondent*, whom the *respondent* intends to call to testify at the *hearing*, and

(ii) in respect of each witness named on the list, a summary of the evidence the witness is expected to give at the *hearing*, a witness statement signed by the witness or a transcript of a recorded statement of the witness, unless the transcript was disclosed by *Enforcement Staff* pursuant to section 8417 or subsection 8418(1).

(3) A summary of expected evidence, witness statement or transcript served in accordance with subsection 8418(1) or 8418(2) must contain:

(i) the substance of the evidence of the witness,

(ii) a reference to any *document* the witness will refer to, and

(iii) the name, address and telephone number of the witness or of a *person* through whom the witness can be contacted.

(4) A *party* who does not include a *person* in a witness list or disclose the *person's* expected evidence in accordance with subsections 8418(1) through 8418(3) may not call the *person* as a witness at the *hearing* without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

(5) A witness may not testify to matters not disclosed in accordance with subsection 8418(3) without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8419. Expert witnesses

(1) A *party* who intends to call an expert witness at a *hearing* must, at least 45 days before the commencement of the *hearing*, serve a written report signed by the expert.

(2) A *party* who intends to call an expert witness in response to an expert's report served pursuant to subsection 8419(1) must, at least 20 days before the commencement of the *hearing*, serve a written report signed by the expert.

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(3) A *party* who intends to call expert evidence to reply to a responding expert's report served pursuant to subsection 8419(2) must, at least 10 days before the commencement of the *hearing*, serve a written report in reply signed by the expert.

(4) An expert's report must contain:

(i) the name, address and qualifications of the expert,

(ii) the substance of the expert's evidence, and

(iii) a reference to any *document* the expert will refer to.

(5) A *party* who does not comply with subsection 8419(1), 8419(2) or 8419(4) may not call the expert as a witness or introduce in evidence or refer to the expert's report or opinion at a *hearing,* without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

(6) If the *party* who calls an expert witness has not complied with subsection 8419(3), the expert witness may not testify to matters for which an expert's report in reply was required, without leave of the *hearing panel* on terms and conditions the *hearing panel* considers just.

8420. Deemed undertaking

(1) In this section, "information" means evidence and information obtained from a *party* that is required to be disclosed or provided pursuant to sections 8416, 8417, 8418 and 8419 prior to a *hearing* on the merits, including evidence and information disclosed or provided in a *prehearing conference*, and any information obtained from such evidence or information.

(2) This section does not apply to *information* obtained otherwise than under section 8416, 8417, 8418 or 8419 or in a *prehearing conference*.

(3) A *party* and its counsel or agent are deemed to undertake not to disclose or use *information* for any purposes other than those of the proceeding in which the *information* was obtained, without the consent of the *party* who disclosed or provided the *information* or *information* on the basis of which the *information* was obtained.

(4) Subsection 8420(3) does not prohibit use of *information* that is:

(i) *filed* with the *National Hearing Coordinator*,

(ii) given or referred to during a *hearing,* or

(iii) obtained from *information* referred to in clauses 8420(4)(i) and 8420(4)(ii).

(5) Notwithstanding subsection 8420(3), *information* may be used to impeach the testimony of a witness in another proceeding.

(6) A *hearing panel* may permit the use of *information* that is subject to this section for purposes other than those of the proceeding in which it was disclosed or provided, if the *hearing panel* is satisfied that the public interest outweighs any prejudice that would result to the *party* who disclosed the *information* or the *person* from whom it was obtained by that *party*, subject to any terms and conditions the *hearing panel* considers just.

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8421. Order to attend and issue of summons

(1) At any stage of a proceeding, a *party* may request a *hearing panel* to exercise its authority under section 8208 to require a *person* to attend and give evidence or produce *documents* at a *hearing*.

(2) If a *hearing panel* orders a *person* who is subject to *IIROC's* contractual jurisdiction to attend and give evidence or produce *documents*, the *National Hearing Coordinator* must serve a notice, in a prescribed form, by personal service in accordance with clause 8406(3)(i), 8406(3)(iv) or 8406(3)(v), requiring the attendance of the *person* to give evidence or produce documents, as ordered by the *hearing panel*.

(3) If a *hearing panel* orders an employee, partner, director or officer of a *Regulated Person*, who is not an *Approved Person*, to attend at a *hearing,* the *National Hearing Coordinator* must serve a notice on the *person* in accordance with subsection 8421(2) and on the *Regulated Person* requiring the *Regulated Person* to direct the *person* to comply with the order.

(4) If a *hearing panel* orders a *person* who is not subject to *IIROC's* contractual jurisdiction to attend and give evidence or produce *documents* in a *District* in which the *hearing panel* is authorized by law to do so, the *National Hearing Coordinator* must serve a summons or subpoena in accordance with the procedure prescribed by law for the issue of a summons or subpoena by a court, regulatory tribunal or analogous decision maker in the *District*.

8422. Adjournments

(1) A *party* who decides to request an adjournment of a *hearing* on the merits must immediately so advise the other *parties* and the *National Hearing Coordinator* in writing.

(2) If the other *parties* consent to the request for an adjournment, the *requesting party* may serve and *file* a written request for the adjournment stating that it is made on consent, and a *hearing panel* may:

(i) refuse the request,

(ii) reschedule the *hearing* without a *hearing* on the request, or

(iii) require a *hearing* on the request.

(3) If the *parties* do not consent to a request for an adjournment, the *requesting party* must bring a motion as soon as possible and the notice of motion must contain:

(i) the reasons for the adjournment,

(ii) the length of time requested for the adjournment, and

(iii) if the motion is brought fewer than 40 days before the date of the *hearing*, a request for an abridgement of the times specified in section 8413, if necessary.

(4) If a motion requesting an adjournment cannot be heard at least 20 days before the date for the commencement of the *hearing* and the *parties* do not consent, the motion must be heard at the commencement of the *hearing* and the *requesting party* must be prepared to proceed if the motion is denied.

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(5) A *hearing panel* may grant or deny an adjournment on any terms and conditions it considers just.

8423. Conduct of hearing on the merits

(1) At a *hearing* on the merits a *respondent* is entitled to be represented by counsel or an agent and to make submissions.

(2) At a *hearing* on the merits, other than a *written hearing*, a *respondent* is entitled:

(i) to attend and be heard in person,

(ii) to call and examine witnesses and present documentary and other evidence, and

(iii) to cross-examine witnesses as reasonably required for a full and fair disclosure of all matters relevant to the issues in the proceeding.

(3) A *hearing* on the merits, other than a *written hearing*, must be conducted in the following order:

(i) *Enforcement Staff* may make an opening address, which may be followed by an opening address by the *respondent*,

(ii) *Enforcement Staff* must present its evidence and examine its witnesses, who may be cross-examined by the *respondent*,

(iii) the *respondent* may make an opening address and must present its evidence and examine its witnesses, who may be cross-examined by other *parties*,

(iv) *Enforcement Staff* may present evidence in reply to any evidence presented for the first time by the *respondent* and examine witnesses, who may be cross-examined by the *respondent*,

(v) if the *hearing panel* requests or permits, the *parties* may serve and *file*, by dates ordered by the *hearing panel*, submissions in writing on the facts and legal argument with respect to the contraventions alleged in the notice of *hearing*, which submissions must not be made public prior to the commencement of the *hearing* of the submissions, and, if necessary, the *National Hearing Coordinator* must set a date for the *hearing* of such submissions,

(vi) *Enforcement Staff* may make closing submissions, followed by the *respondent's* closing submissions and *Enforcement Staff's* reply to issues raised by the *respondent*,

(vii) unless the *parties* agree otherwise, after the *hearing panel* makes its *decision* on the merits of the allegations in the notice of *hearing*, the *National Hearing Coordinator* must set a date for the presentation of additional evidence, if any, and the *hearing* of submissions on *sanctions* and costs, and

(viii) the *hearing panel* may request or permit the *parties* to serve and *file* written submissions on *sanctions* and costs, which submissions must not be made public prior to the commencement of the *sanctions hearing*.

(4) After cross-examination of a witness, the *party* who called the witness may further examine the

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witness with respect to matters raised for the first time in cross-examination.

(5) Following examination and cross-examination of a witness, a *hearing panel* may ask questions of the witness, subject to the right of the *parties* to ask further questions with respect to matters raised by the *hearing panel*.

(6) If two or more *respondents* are separately represented, the *hearing panel* may direct the order of presentation.

(7) A *hearing panel* may control the scope and manner of questioning of a witness to protect the witness from undue harassment.

(8) A *hearing panel* may order a witness to be excluded from a *hearing* until the witness is called to give evidence, unless the presence of the witness is necessary to instruct a *party's* counsel or agent, in which case the *hearing panel* may require the witness to be called to give evidence before other witnesses are called.

(9) If a *hearing panel* orders the exclusion of a witness, evidence given during the witness's absence from the *hearing* must not be communicated to the witness until the witness has completed giving evidence, except with leave of the *hearing panel*.

(10) A *hearing panel* may permit a *party* to present the evidence of a witness or proof of a particular fact or *document* by affidavit, unless another *party* reasonably requires the attendance of the witness at the *hearing* for cross-examination.

(11) If a *hearing panel* requests or permits the *parties* to make written submissions on *sanctions* and costs, unless the *hearing panel* orders otherwise:

(i) the date set for the *sanctions hearing* must be at least 30 days after the date of the *decision* on the merits,

(ii) *Enforcement Staff* must serve and *file* submissions at least 14 days before the *sanctions hearing*,

(iii) the *respondent* must serve and *file* submissions at least seven days before the *sanctions hearing*, and

(iv) *Enforcement Staff* must serve and *file* any reply submissions at least three days before the *sanctions hearing*.

(12) If a *respondent* who has been served with a notice of *hearing* does not attend the *hearing* on the merits, the *hearing panel:*

(i) may proceed with the *hearing* in the *respondent's* absence and may accept as proven the facts and contraventions alleged in the notice of *hearing* and statement of allegations, and

(ii) if it finds that the *respondent* committed the alleged contraventions, may hear submissions on *sanctions* from *Enforcement Staff* immediately, without a further *hearing* on *sanctions* and costs, and may impose *sanctions* and costs pursuant to sections 8209 or 8210, as it considers appropriate.

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8424. Written hearings

(1) If a *hearing* is a *written hearing*, the *party* who serves a *commencing notice* must, with the motion or other record required by the *Rules of Procedure* or within a time directed by a *hearing panel*, serve and *file* the *party's* written submissions containing, as applicable:

(i) a statement of agreed facts,

(ii) the *party's* factual and legal submissions, and

(iii) any material ordered by the *hearing panel*.

(2) A *respondent* or *responding party* may respond, within the time provided in subsection 8413(7) or in a *decision* of a *hearing panel*, by serving and *filing* a responding motion record, if applicable, and the *party's* factual and legal submissions.

(3) A *party* may reply to a response served pursuant to subsection 8424(2), within the time provided in subsection 8413(9) or in a *decision* of a *hearing panel,* by serving and *filing* a reply record, if applicable, and the *party's* factual and legal submissions.

(4) A *hearing panel* may:

(i) require a *party* to serve and *file* additional information,

(ii) on request of a *party*, order that a *party* present a witness to be examined or cross-examined on any terms and conditions the *hearing panel* directs, and

(iii) after considering the record, order that the *hearing* be continued as an *oral hearing* or *electronic hearing*.

8425. Temporary orders

(1) Where a proceeding pursuant to section 8211 is commenced, *Enforcement Staff* must *file* a notice of *application* and *application* record at least five days prior to the date of the *hearing* or a shorter period permitted by a *hearing panel*.

(2) An *application* under subsection 8425(1) may be made with or without notice to the *respondent*.

(3) A notice of *application* must contain:

(i) the date, time and location of the *hearing*,

(ii) whether notice has been given to the *respondent*,

(iii) a statement of the purpose of the proceeding,

(iv) the *sanctions* requested by *Enforcement Staff*,

(v) the grounds for the *application*, including a reference to any *IIROC requirements* or *applicable laws* that the *respondent* is alleged to have contravened,

(vi) a statement of the facts alleged that support the alleged contraventions and the need for a temporary order,

(vii) a list of documentary and other evidence relied on,

(viii) whether it is proposed that the *application* be heard as an *oral hearing*, *electronic*

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hearing or *written hearing*, and

(ix) any other information that *Enforcement Staff* considers advisable.

(4) An *application* record must contain:

(i) the notice of *application*, and

(ii) copies of the evidence, including affidavit and other materials relied on.

(5) If an *application* under subsection 8425(1) is made with notice, *Enforcement Staff* must serve the *respondent* with the *application* record before it is *filed* and the *respondent* may serve and *file* a responding record at least two days prior to the date of the *hearing*.

(6) A responding record must contain:

(i) the order requested by the *respondent*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(7) A *party* to an *application* under subsection 8425(1) may serve, if notice is given, and *file* a memorandum of fact and law prior to the *hearing* of the *application*.

(8) A *hearing panel* may, at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the *hearing* on any matter in issue and allow cross-examination on an affidavit.

(9) A *hearing panel* may:

(i) grant the temporary order requested,

(ii) dismiss or adjourn the *application* in whole or in part, with or without terms, and

(iii) make another *decision* it considers appropriate.

(10) If an *application* under subsection 8425(1) is made on notice, the *decision* and reasons of the *hearing panel* constitute the notice required by subsection 8211(3).

(11) If an *application* under subsection 8425(1) is made without notice, a notice of a temporary order pursuant to subsection 8211(3) must contain:

(i) a statement that a temporary order has been made with respect to the *respondent*, describing the terms of the temporary order,

(ii) the grounds on which the temporary order was requested and a reference to the notice of *application* containing them, and

(iii) a summary of subsection 8211(2) and the date, time and location of a *hearing* pursuant to clause 8211(2)(i).

(12) A notice of a temporary order under subsection 8425(11) must be accompanied by:

(i) a copy of the *decision* or order and reasons of the *hearing panel*,

(ii) a copy of the notice of *application* and *application* record *filed* by *Enforcement Staff*,

(iii) a summary of any oral evidence received by the *hearing panel* or a transcript of the *hearing*,

(iv) copies of any documentary or other evidence received by the *hearing panel* that is not

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contained in the *application* record, and

(v) any written submissions presented to the *hearing panel*.

(13) A *hearing* to extend a temporary order must follow the procedure in section 8413 for a motion.

8426. Protective orders

(1) Where a proceeding pursuant to section 8212 is commenced, *Enforcement Staff* must serve the *respondent* with, and *file,* a notice of *application* and *application* record at least five days prior to the date of the *hearing* or a shorter period permitted by a *hearing panel*.

(2) A notice of *application* must contain:

(i) the date, time and location of the *hearing,*

(ii) a statement of the purpose of the proceeding,

(iii) the order requested by *Enforcement Staff*,

(iv) the grounds for the *application*, including a reference to any *IIROC requirements* or *applicable laws* that the *respondent* is alleged to have contravened,

(v) a statement of the facts alleged that support the alleged contraventions, the need for a protective order and the order sought,

(vi) a list of documentary and other evidence relied on,

(vii) whether it is proposed that the *application* be heard as an *oral hearing*, *electronic hearing* or *written hearing*, and

(viii) any other information that *Enforcement Staff* considers advisable.

(3) An *application* record must contain:

(i) the notice of *application*, and

(ii) copies of the evidence, including affidavits and other materials relied on.

(4) *Enforcement Staff* must serve the *application* record before it is *filed* and a *respondent* may serve and *file* a responding record.

(5) A responding record must contain:

(i) the order requested by the *respondent*, including a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(6) A *party* to an *application* under subsection 8426(1) may serve and *file* a memorandum of fact and law prior to the *hearing* of the *application*.

(7) A *hearing panel* may, at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the *hearing* on any matter in issue and allow cross-examination on an affidavit.

(8) A *hearing panel* may:

(i) grant the order requested,

(ii) dismiss or adjourn the *application* in whole or in part, with or without terms, and

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(iii) make any other *decision* authorized by subsection 8212(4) that it considers appropriate.

8427. Review of protective orders

(1) A *party* who requests a review of a *decision* made under section 8212 must serve and *file*, within 30 days of the date of the *decision*, a notice of request for review and a review record.

(2) A notice of request for review must contain:

(i) the date, time and location of the *hearing* of the request for review,

(ii) the relief sought,

(iii) the grounds for the relief sought, including reference to any *IIROC requirements* or *applicable laws*,

(iv) a list of evidence and other materials relied on, and

(v) whether it is proposed that the request for review be heard as an *oral hearing*, *electronic hearing* or *written hearing*.

(3) A review record must contain:

(i) the notice of request for review, and

(ii) copies of any additional evidence, including affidavits and other materials relied on.

(4) *Enforcement Staff* must *file*, at least seven days prior to the date of the review *hearing*, a record that contains the record of the *hearing* under section 8212, the *decision* and reasons of the *hearing panel*, a transcript of the *hearing* and copies of any documentary or other evidence received by the *hearing panel* not otherwise contained in the record.

(5) A *responding party* may serve and *file* a reply no later than seven days prior to the date of the review *hearing*.

(6) A reply must contain:

(i) the order requested by the *responding party* and a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other material relied on.

(7) The *parties* may serve and *file* a memorandum of fact and law no later than two days prior to the date of the review *hearing*.

(8) A review *hearing* must be conducted in the following order:

(i) the *requesting party* may present evidence,

(ii) the *responding party* may present evidence,

(iii) the *requesting party* may make submissions,

(iv) the *responding party* may make submissions, and

(v) the *requesting party* may reply to the submissions of the *responding party*.

(9) A *hearing panel* may at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the review *hearing* on any matter in issue and allow cross-

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examination on an affidavit.

(10) At any time prior to a review *hearing*, a *requesting party* may bring a motion for a stay of an order made under subsection 8212(4).

8428. Settlement hearings

(1) If a *settlement agreement* is made after a notice of *hearing* has been issued, a *settlement hearing* must be commenced by a notice of motion.

(2) If a *settlement agreement* is made before a notice of *hearing* is issued, a *settlement hearing* must be commenced by a notice of *application*.

(3) *Enforcement Staff* must serve the *respondent* with, and *file*, a *commencing notice* for a *settlement hearing* and must *file* copies of the *settlement agreement* at least seven days prior to the date of the *settlement hearing*, unless the *hearing* on the merits has commenced and the *hearing panel* orders otherwise.

(4) A *commencing notice* for a *settlement hearing* must contain:

(i) the date, time and location of the *settlement hearing*,

(ii) the identity of the *respondent*,

(iii) a statement of the purpose of the *hearing*,

(iv) the general nature of the allegations addressed by the *settlement agreement*, and

(v) whether it is proposed that the *settlement hearing* be an *oral hearing*, *electronic hearing* or *written hearing*.

(5) A *settlement agreement* must not be open for inspection by the public unless it has been accepted by a *hearing panel*.

(6) At a *settlement hearing*, facts that are not contained in the *settlement agreement* must not be disclosed to the *hearing panel* without the consent of all *parties*, unless the *respondent* does not appear, in which case *Enforcement Staff* may disclose additional relevant facts, if requested by the *hearing panel*.

8429. Monitor

(1) A request for directions by *Enforcement Staff* or a *Monitor* must be made by bringing a motion in accordance with section 8413.

Part C - REVIEW PROCEEDINGS

8430. Regulatory review hearings

(1) A *party* who requests a review of a *regulatory decision* must serve and *file*, within the time specified in *IIROC requirements* relating to the *regulatory decision* and:

(i) in the case of a decision made under section 9204, 9206 or 9207, at least 14 days, and

(ii) in the case of a decision under Part B of Rule 4100, no more than the number of days

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specified in Part B of Rule 4100, prior to the date of the *hearing*, a notice of request for review and a review record.

(2) A notice of request for review must contain:

(i) the date, time and location of the *hearing* of the request for review,

(ii) the relief sought,

(iii) the grounds for the relief sought, including reference to any *IIROC requirements* or *applicable laws*,

(iv) a list of evidence and other materials relied on, and

(v) whether it is proposed that the request for review be heard as an *oral hearing*, *electronic hearing* or *written hearing*.

(3) A review record must contain:

(i) the notice of request for review,

(ii) any *notice* of the *regulatory decision* received by the *requesting party*,

(iii) the *regulatory decision* and any reasons for the *regulatory decision*,

(iv) any materials that accompanied the notice of the *regulatory decision* or the *regulatory decision* received by the *requesting party*,

(v) copies of any additional evidence, including affidavits and other materials relied on.

(4) A *responding party* may serve and *file* a reply no later than seven days prior to the date of the review *hearing*.

(5) A reply must contain:

(i) the order requested by the *responding party* and a statement of the reasons for the order requested, and

(ii) copies of any additional evidence, including affidavits and other material relied on.

(6) The *parties* may serve and *file* a memorandum of fact and law no later than two days prior to the date of the review *hearing*.

(7) A review *hearing* must be conducted in the following order:

(i) the *requesting party* may present evidence,

(ii) the *responding party* may present evidence,

(iii) the *requesting party* may make submissions,

(iv) the *responding party* may make submissions, and

(v) the *requesting party* may reply to the submissions of the *responding party*.

(8) A *hearing panel* may at any time, on any terms or conditions it considers appropriate, require oral testimony to be adduced at the review *hearing* on any matter in issue and allow cross-examination on an affidavit.

(9) A member of a *District Council* whose *decision* is the subject of a request for review may not be a member of the *hearing panel* on the review *hearing*.

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Part D - SECURITIES REGULATORY AUTHORITY REVIEW

8431. Record for review

(1) A *party* who applies to a *securities regulatory authority* for review of a final *decision* of a *hearing panel* may obtain a copy of the record of the proceeding in which the *decision* was made by sending a request for the record, in prescribed form, to the *National Hearing Coordinator*.

(2) The *National Hearing Coordinator* must provide a copy of the record of the proceeding to the *party* within a reasonable time after receipt of a request under subsection 8431(1), subject to payment of any applicable costs or fees.

(3) Subject to subsection 8431(4), the record of a proceeding must include copies of:

(i) the *commencing notice* in the proceeding,

(ii) any interim orders made in the proceeding,

(iii) any preconference memorandums,

(iv) documentary and other evidence adduced in the proceeding, subject to any limitations imposed under *IIROC requirements* by a *hearing panel* or by law,

(v) any other *documents* in the proceeding requested by a *party*,

(vi) a transcript of oral evidence given at the *hearing* on the merits, and

(vii) the *decision* and reasons of the *hearing panel*.

(4) The *National Hearing Coordinator* may omit any *documents* from the record of a proceeding, if:

(i) the *parties* consent and the *hearing panel* agrees, or

(ii) the *hearing panel* so directs.

(5) The *National Hearing Coordinator* may require the *party* who requests the record of a proceeding to pay the costs of preparing a copy of the record and a reasonable fee for its preparation.

8432. – 8999. Reserved.

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RULE 9100

COMPLIANCE EXAMINATIONS

9101. Introduction

(1) Rule 9100 sets out the powers of *IIROC* to initiate and conduct compliance examinations and request information and the rights and obligations of *Regulated Persons* with respect to such examinations.

9102. Examinations

(1) An examination under Rule 9100 includes a request for information made by *IIROC* staff.

9103. Conducting examinations

(1) *IIROC* staff may examine the conduct, business and affairs of a *Regulated Person* with respect to *IIROC requirements*, *applicable laws*, or trading or advising in respect of securities, *futures contracts* or *derivatives*.

(2) *IIROC* staff may initiate an examination where they consider it advisable to do so.

9104. Examination powers

(1) In connection with an examination, *IIROC* staff may, by written or electronic request, require a *Regulated Person* or an *employee,* partner, *Director*, officer or *approved investor* to:

(i) provide a written report with respect to any matter,

(ii) produce for inspection any *records* and documents in the *person's* possession or control that *IIROC* staff believe may be relevant to the examination, whether written, electronically stored, or recorded,

(iii) provide copies of any such *records* and documents in the manner and form, including electronically and recorded, that *IIROC* staff requests, and

(iv) answer questions with respect to any matter.

(2) In a request made under subsection 9104(1), *IIROC* staff may require production of original documents and must provide a receipt for any original documents received.

(3) In connection with an examination, *IIROC* staff:

(i) may, with or without prior notice, enter the business premises of any *Regulated Person* during business hours,

(ii) are entitled to free access to and to make and keep copies of all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and *records* of every description that *IIROC* staff believe may be relevant to the examination, including by taking an image of the computer hard drives of the *Regulated Person*, and

(iii) may remove the original of any document or *record* obtained under clause 9104(3)(ii),

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and where an original document or *record* is removed from the premises, *IIROC* staff must provide a receipt for the removed document or *record*.

9105. Obligations of Regulated Persons and other persons

(1) A *person* who receives a request made under section 9104 must comply with the request within the time specified in it.

(2) A *Regulated Person* must cooperate with *IIROC* staff who are conducting an examination, and a *Regulated Person* must require its employees, partners, directors and officers to cooperate with *IIROC* staff conducting an examination and to comply with a request made under section 9104.

(3) A *person* who is aware that *IIROC* staff is conducting an examination must not conceal or destroy any *record*, document or thing that contains information that may be relevant to the examination or ask or encourage any other *person* to do so.

9106. Use of information

(1) *IIROC* staff may refer any information obtained from an examination to *Enforcement Staff*, other *IIROC* staff, or a securities, futures or derivatives regulatory authority.

(2) *IIROC* staff may take any other appropriate action based on information obtained from an examination.

9107. – 9199. Reserved.

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RULE 9200

APPROVALS AND REGULATORY SUPERVISION

9201. Introduction

(1) Rule 9200 sets out the authority of *IIROC* to approve *individuals* employed by or otherwise acting on behalf of *Dealer Members*, to grant exemptions from *IIROC's* proficiency requirements, to impose terms and conditions on approvals and *Membership* in *IIROC*, to suspend and revoke approvals, and rights of review available to *parties* to such decisions.

9202. Definitions

(1) The following terms have the meaning set out below when used in Rule 9200:

"application"	An application for approval or an exemption under Rule 9200, but does not include a request for a review of a decision on such an application under Rule 9300.
"decision"	A determination made by a *District Council*, a *Registration Subcommittee*, *Registration Staff* or *IIROC* under Rule 9200.
"District Council panel"	A panel of three members of a *District Council* appointed by the *National Hearing Coordinator* to conduct a *hearing* under section 9209.
"Registration Staff"	Registration staff of *IIROC*.
"Registration Subcommittee"	A subcommittee of a *District Council* to whom authority has been delegated under subsection 9203(1).

9203. Decisions of a District Council

(1) A *District Council* may delegate its authority to make decisions under Rule 9200 to a *Registration Subcommittee* of at least three *industry members* of the *District Council* or, except for its authority under section 9205 and subsection 9207(2), to *Registration Staff*.

(2) Notice of a *decision* of a *District Council* must be given to an applicant or other *person* who is its subject.

(3) A *District Council* must not:

(i) refuse an *application*,

(ii) impose terms and conditions on an approval, or

(iii) suspend or revoke an approval,

unless the applicant or *Approved Person* has been given an opportunity to be heard.

(4) Written reasons must be provided with notice of a *decision* that:

(i) refuses an *application*,

(ii) imposes terms and conditions on an approval, or

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(iii) suspends or revokes an approval.

(5) A *decision* is effective on the date on which notice of the *decision* is provided to the *parties*, unless:

(i) the *decision* provides otherwise, in which case the *decision* is effective on the date so provided, or

(ii) unless the *decision* is stayed under subsection 9209(4) or by a *hearing panel*.

9204. Individual approval applications

(1) An *individual* may make an *application* to a *District Council* for approval as a:

(i) S*upervisor* under section 2552,

(ii) *Director* or *Executive* under section 2552,

(iii) *Registered Representative, Investment Representative, Portfolio Manager* and *Associate Portfolio Manager* under section 2553,

(iv) *Chief Financial Officer, Chief Compliance Officer,* or *Ultimate Designated Person* under section 2552, or

(v) *Trader* under section 2557.

(2) A *District Council* must approve an *application* under subsection 9204(1), unless in its opinion:

(i) the applicant:

(a) does not comply with *IIROC requirements*,

(b) is likely not to comply with *IIROC requirements*, or

(c) does not comply with *securities laws* relating to or is not suitable for approval on the basis of training, experience, solvency or integrity, or

(ii) the approval is otherwise not in the public interest.

(3) A *District Council* may approve an *application* under subsection 9204(1), subject to any terms and conditions it considers appropriate.

9205. Membership approval applications

(1) The *District Council* shall make a recommendation to the *Board* to:

(i) approve an *application* for *Dealer Member Membership* in *IIROC* made pursuant to section 3.5 of General By-law No. 1,

(ii) approve the *application* subject to such terms and conditions as may be considered just and appropriate, or

(iii) refuse the *application* if, in its opinion:

(a) the applicant does not comply with one or more *IIROC requirements*,

(b) one or more *IIROC requirements* will not be complied with by the applicant,

(c) the applicant is not qualified for approval by reason of integrity, solvency, or experience, or

(d) such approval is not in the public interest.

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(2) Prior to consideration of an *application* for *Dealer Member Membership* in *IIROC* by the *Board*, the applicant shall be informed that it has an opportunity to be heard by the *Board* before the *Board* decides on the *application* and shall be given a copy of the *District Council's* recommendation and informed in writing of the reasons for it.

(3) The *Board* shall have the power to:

(i) approve an *application* for *Dealer Member Membership* in *IIROC* made pursuant to section 3.5 of General By-law No. 1,

(ii) approve the *application* subject to such terms and conditions as may be considered just and appropriate, or

(iii) refuse the *application* if, in its opinion:

(a) the applicant does not comply with one or more *IIROC requirements*,

(b) one or more *IIROC requirements* will not be complied with by the applicant,

(c) the applicant is not qualified for approval by reason of integrity, solvency, or experience, or

(d) such approval is not in the public interest.

(4) A decision of the *Board* under subsection 9205(3) is a final decision for which no further review or appeal is provided under *IIROC requirements*.

9206. Exemption applications

(1) An *individual* or a *Dealer Member*, with respect to proficiency requirements applicable to its *Approved Persons*, may apply to a *District Council* for an exemption from the proficiency requirements under Rule 2600, or for an extension of or exemption from a continuing education requirement under Rule 2700.

(2) On an *application* under subsection 9206(1), the *District Council* may grant an exemption or extension in accordance with any standards in the relevant rule, subject to any terms and conditions it considers appropriate.

9207. Continued approval

(1) A *District Council* may, in its discretion, impose terms and conditions on the continued approval of an *Approved Person* to ensure continuing compliance with *IIROC requirements*.

(2) A *District Council* may suspend or revoke the approval of an *Approved Person*, if it appears to the *District Council* that:

(i) the *Approved Person* is not suitable for approval by reason of integrity, solvency, training or experience,

(ii) the *Approved Person* has failed to comply with *IIROC requirements*, or

(iii) the approval is otherwise not in the public interest.

9208. Terms and conditions on membership

(1) *IIROC* may impose terms and conditions on a *Dealer Member's* Membership in *IIROC*, where *IIROC* considers it appropriate to ensure continuing compliance with *IIROC requirements*.

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(2) *IIROC* must not impose terms and conditions on a Membership in *IIROC*, unless the *Dealer Member* has been given an opportunity to be heard.

(3) Notice of a *decision* imposing terms and conditions under subsection 9208(1) must be given to the *Dealer Member* and must be accompanied by written reasons for the *decision.*

9209. Review Hearings

(1) Within 30 days after the release of a *decision* under section 9204, 9207 or 9208, an applicant, *Approved Person* or *Dealer Member*, respectively, may request a review of the *decision* by a *hearing panel* under Rule 9300.

(2) An applicant may, within 30 days after the release of a *decision* under section 9206, request a review of the *decision* by a *District Council panel*.

(3) *Registration Staff* may, within 30 days after the release of a *decision*, other than a *decision* made by *Registration Staff*, request a review:

(i) of a *decision* under section 9204 or 9207 by a *decision* under Rule 9300, or

(ii) of a *decision* under section 9206 by a *District Council panel*.

(4) A request for review of a *decision* under section 9206 by *Registration Staff* operates as a stay of the *decision*.

(5) If a review of a *decision* under section 9206 is requested, the *National Hearing Coordinator* must, subject to subsection 9209(7), select three members from the *District Council* of the applicable *District* as members of the *District Council panel* to review the *decision*, and subsections 8408(7), (10) and (11) apply to the selection and conduct of a *District Council panel*, with modifications required by the context of Rule 9200.

(6) A member of a *District Council* who has participated in a *decision* must not participate as a member of a *hearing panel* or *District Council panel* on a review of the *decision*.

(7) On a review of a *decision* made under section 9206, a *District Council panel* may:

(i) affirm the *decision*,

(ii) quash the *decision*,

(iii) vary or remove any terms and conditions imposed on the applicant, and

(iv) make any decision that could have been made by the *District Council* under section 9206.

(8) A *decision* of a *District Council panel* under subsection 9209(7) is a final decision for which no further review or appeal is provided under *IIROC requirements*.

9210. Review by a securities regulatory authority

(1) A *party* may apply to the *securities regulatory authority* in the applicable *District* for a review of a final *decision* of a *District Council panel* under Rule 9200.

(2) A *person* who is entitled to request a review by a *District Council panel* under section 9209 of a *decision* made under section 9206 may not apply to a *securities regulatory authority* for review

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	of that *decision*, unless the *person* has requested a review by a *District Council panel* and the *District Council panel* has made a final *decision*.
	(3) For purposes of subsection 9210(1), *IIROC* staff is directly affected by a *decision* in a proceeding in which *IIROC* staff is a *party*.
9211. – 9299. Reserved.	

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RULE 9300

REGULATORY REVIEW PROCEEDINGS

9301. Introduction

(1) Rule 9300 sets out the authority of *hearing panels* to review a *decision* under Rule 9200 or an early warning level 2 prohibition under Part B of Rule 4100.

9302. Definitions

(1) The following terms have the meaning set out below when used in Rule 9300:

"application"	An application for approval under section 9204.
"approval order"	An order made under section 9207.
"compliance order"	An order made under section 9208.
"decision"	A determination made by a *District Council*, a *person* to whom decision-making authority is delegated by a *District Council*, *IIROC*, or a *hearing panel* that makes a decision in a review proceeding under Rule 9300.
"early warning review order"	An order made under Part B of Rule 4100.

9303. Hearings and decisions

(1) Section 8203 applies to a proceeding under Rule 9300, with modifications required by the context of this Rule 9300.

(2) A *decision* of a *hearing panel* is effective on the date the *decision* is dated by the *National Hearing Coordinator*, unless the *decision* provides otherwise, in which case the *decision* is effective on the date so provided.

9304. Review proceedings

(1) A request for review of a *decision* made on an *application,* an *approval order*, a *compliance order* or an *early warning review order* must be heard by a *hearing panel* in accordance with the *Rules of Procedure*.

(2) After a *hearing* under this section, a *hearing panel* may:

(i) affirm the *decision* under review,

(ii) quash the *decision*,

(iii) vary or remove any terms and conditions imposed by the *decision*,

(iv) prohibit, as applicable, a further *application* for approval under section 9204 by the applicant for a period of time it considers appropriate, or

(v) make any *decision* authorized by *IIROC requirements* under which the *decision* was made.

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(3) A member of a *District Council* who participates in a *decision* or in making an *approval order, compliance order* or *early warning review order* must not be a member of the *hearing panel* on a review of the *decision*.
9305. Review by a securities regulatory authority
(1) A *party* may apply to the *securities regulatory authority* in the applicable *District* for a review of a final *decision* of a *hearing panel* under Rule 9300.
(2) A *person* who is entitled to request a review of a *decision* under section 9304 may not apply to a *securities regulatory authority* for review of the *decision*, unless the *person* has requested a review by a *hearing panel* and the *hearing panel* has made a final *decision*.
(3) For purposes of subsection 9305(1), *IIROC* staff is directly affected by a *decision* in a proceeding in which *IIROC* staff is a *party*.
9306. – 9399. Reserved.

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RULE 9400

PROCEDURES FOR OPPORTUNITIES TO BE HEARD BEFORE DECISIONS ON APPROVAL AND REGULATORY COMPLIANCE MATTERS

9401. Introduction

(1) These procedures apply where *IIROC requirements* require an opportunity to be heard before:

(i) a *District Council* (including the *District Council's* delegate where authority has been delegated to a *Registration Subcommittee* or *IIROC* staff),

(ii) a *senior officer* who has the authority to make a decision concerning an *individual* or a *Dealer Member*, or

(iii) the *Board* concerning an application for *Dealer Member Membership* in *IIROC*.

(2) These procedures will be followed where, under statutory authority that has been delegated to *IIROC*, *IIROC* makes a registration decision for which an opportunity to be heard is required under *securities laws*.

(3) Rule 9400 is divided into the following parts:

Part A - Opportunities to be heard by a district council or a senior officer
[sections 9403 through 9410]

Part B - Opportunities to be heard by the board
[sections 9411 through 9417]

9402. Definitions

(1) The following terms have the meaning set out below when used in Rule 9400:

"decision maker"	A *District Council* or *senior officer* with authority to make a decision in a *hearing* under Rule 9200.
"Registration Staff"	Refers to registration employees of *IIROC* or employees of *IIROC* who conduct compliance examinations under Rule 9100.
"Registration Subcommittee"	A subcommittee of a *District Council* to whom authority to make a recommendation under section 9205 has been delegated under subsection 9203(1).
"senior officer"	A senior officer of *IIROC* who has authority to make a decision to impose terms and conditions on a *Dealer Member's Membership* in *IIROC* under section 9208

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Part A - OPPORTUNITIES TO BE HEARD BY A DISTRICT COUNCIL OR A SENIOR OFFICER

9403. Opportunities to be heard by a District Council or a senior officer

(1) The procedures in sections 9404 through 9410 apply where an applicant has requested an opportunity to be heard by a *District Council* or by a *senior officer*.

(2) These procedures are intended to ensure that opportunities to be heard by a *decision maker* are handled in a way that ensures a fair *hearing*, without being unnecessarily formal.

9404. Counsel

(1) A party to a proceeding under Rule 9400 may be represented by counsel or an agent.

(2) If an applicant, *Approved Person* or *Dealer Member* is represented by counsel or an agent, *Registration Staff* will communicate with the applicant, *Approved Person* or *Dealer Member* through counsel or the agent.

9405. IIROC Staff Notice

(1) If *Registration Staff* recommends that a *District Council* refuse to grant, revoke, or suspend a *IIROC* approval or that terms and conditions be imposed on an approval or *Membership*, *Registration Staff* must send a letter to the applicant, *Approved Person* or *Dealer Member* giving notice of *Registration Staff's* recommendation and brief reasons for it.

9406. Response of applicant, Approved Person or Dealer Member

(1) In section 9406 a "response" means the applicant, *Approved Person* or *Dealer Member* must inform *Registration Staff* in writing if an applicant, *Approved Person* or *Dealer Member* wishes to be heard before a decision is made on *Registration Staff's* recommendation.

(2) A *response* must be delivered within 10 *business days* after receipt of *IIROC* staff's letter, or within such shorter period of time as set out in such letter.

(3) If a *response* is not delivered within the time set out in *Registration Staff's* letter, *Registration Staff* will send its recommendation to the *decision maker* for consideration.

9407. Choice of written submissions or appearance

(1) Unless otherwise decided by a *decision maker*, an opportunity to be heard will be conducted as an exchange of written submissions. However, an applicant, *Approved Person*, *Dealer Member* or *Registration Staff* may request that the opportunity to be heard be conducted as an appearance:

(i) in the presence of a *decision maker*,

(ii) by telephone conference, or

(iii) by other interactive electronic means acceptable to both *parties*.

(2) A request that an opportunity to be heard be conducted as an appearance must be made to

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the *decision maker* in writing, with a brief statement of the reasons for making the request, and the other *party* will be given an opportunity to object to the request before the *decision maker* decides whether to grant a request for an appearance.

(3) A *decision maker* may also decide on its own initiative that the opportunity to be heard will be conducted as an appearance, in which case the *decision maker* must promptly inform the *parties* of its decision.

9408. Exchange of written submissions

(1) This section describes the process to be followed if the opportunity to be heard is conducted by exchange of written submissions.

(2) *Registration Staff* must provide the applicant, *Approved Person* or *Dealer Member* with a written submission setting out the facts and law supporting *Registration Staff's* recommendation. *Registration Staff's* submission must be delivered to the applicant, *Approved Person* or *Dealer Member* within 10 *business days* after *Registration Staff* receives the applicant's, *Approved Person's* or *Dealer Member's response* (as defined in section 9406).

(3) An applicant, *Approved Person* or *Dealer Member* must then provide *Registration Staff* with a written submission responding to *Registration Staff's* submission, to be delivered within 10 *business days* after the applicant, *Approved Person,* or *Dealer Member* receives *Registration Staff's* submission.

(4) Subject to agreement of the *parties* or a *decision* of the *decision maker*, there will only be one exchange of written submissions so that the *decision maker* may render a decision without unnecessary delay; however, where the *parties* agree to make further submissions or either of them requests that the *decision maker* allow further submissions, such agreement or request must be made within five *business days* after delivery of the applicant's, *Approved Person's* or *Dealer Member's* submission under subsection 9408(3).

(5) Unless an agreement or request is made under subsection 9408(4), *Registration Staff's* and the applicant's, *Approved Person's* or *Dealer Member's* respective submission will be delivered by *Registration Staff* to the *decision maker* within five *business* days after the applicant's, *Approved Person's* or *Dealer Member's* submission is delivered.

(6) If an agreement or request is made under subsection 9408(4), the submissions of all *parties* will be delivered by *Registration Staff* to the *decision maker* when all submissions have been delivered or the time for their delivery has elapsed.

9409. Appearance before a decision maker

(1) This section describes the process to be followed if the opportunity to be heard is conducted as an appearance.

(2) An appearance before a *decision maker* will generally be an informal proceeding, and the *Rules of Procedure* do not apply.

(3) At an appearance:

(i) the *decision maker* may ask any question and admit any evidence it thinks fit,

(ii) witnesses may be called, examined and cross-examined with the consent of the *decision maker*, and

(iii) the applicant, *Approved Person* or *Dealer Member* and any witnesses may be required to give evidence under oath or affirmation.

9410. Decisions

(1) Where an applicant, *Approved Person* or *Dealer Member* requests that an opportunity to be heard be conducted by exchange of written submissions, but fails to deliver submissions within the required time, the *decision maker* may make its decision on *Registration Staff's* recommendation and submissions without further notice or delay.

Part B - OPPORTUNITIES TO BE HEARD BY THE BOARD

9411. Opportunities to be heard by the Board

(1) The procedures in sections 9412 through 9417 apply where an applicant has requested an opportunity to be heard by the *Board* in relation to an *application* for *Dealer Member Membership* in *IIROC* as set out in section 9205.

(2) These procedures are intended to ensure that opportunities to be heard by the *Board* are handled in a way that ensures a fair *hearing*, without being unnecessarily formal.

9412. IIROC Staff Notice

(1) If *IIROC* staff recommends that the *Board* refuse to grant *Membership* in *IIROC*, or that terms and conditions be imposed on *Membership* in *IIROC*, *IIROC* staff must send a letter to the applicant giving notice of *IIROC* staff's recommendation and brief reasons for it.

9413. Response of applicant, Approved Person or Dealer Member

(1) In section 9413 a "response" means the applicant must inform *IIROC* staff in writing if an applicant wishes to be heard before a decision is made on *IIROC* staff's recommendation.

(2) A *response* must be delivered within 10 *business days* after receipt of *IIROC* staff's letter, or within such shorter period of time as set out in such letter.

(3) If a *response* is not delivered within the time set out in *IIROC* staff's letter, *IIROC* staff will send its recommendation to the *Board* for consideration.

9414. Choice of written submissions or appearance

(1) An opportunity to be heard will be conducted as an exchange of written submissions, unless an applicant or *IIROC* staff requests that the opportunity to be heard be conducted as an appearance:

(i) in the presence of the *Board*,

(ii) by telephone conference, or

(iii) by other interactive electronic means acceptable to both *parties*.

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(2) A request that an opportunity to be heard be conducted as an appearance must be made to the *Board* in writing, with a brief statement of the reasons for making the request, by delivering a copy of the request to *IIROC*. The other *party* will be given an opportunity to object to the request before the *Board* decides whether to grant a request for an appearance.

(3) The *Board* may also decide on its own initiative that the opportunity to be heard will be conducted as an appearance, in which case the *Board* must promptly inform the *parties* of its decision.

9415. Exchange of written submissions

(1) This section describes the process to be followed if the opportunity to be heard is conducted by exchange of written submissions.

(2) *IIROC* staff must provide the applicant with a written submission setting out the facts and law supporting *IIROC* staff's recommendation, which submission must be delivered to the applicant within 10 *business days* after *IIROC* staff receives the applicant's *response* (as defined in section 9413).

(3) An applicant must then provide *IIROC* staff with a written submission responding to staff's submission, to be delivered within 10 *business days* after the applicant receives *IIROC* staff's submission.

(4) Subject to agreement of the *parties* or a decision of the *Board*:

(i) there will only be one exchange of written submissions so that the *Board* may render a decision without unnecessary delay, and

(ii) where the *parties* agree to make further submissions or either of them requests that the *Board* allow further submissions, such agreement or request must be made within five *business days* after delivery of the applicant's submission under subsection 9415(3).

(5) Unless an agreement or request is made under subsection 9415(4), *IIROC* staff's and the applicant's respective submission will be provided to the *Board* within five *business days* after the applicant's submission is delivered.

(6) If an agreement or request is made under subsection 9415(4), the submissions of all *parties* will be provided to the *Board* when all submissions have been delivered or the time for their delivery has elapsed.

9416. Appearance before the Board

(1) This section describes the process to be followed if the opportunity to be heard is conducted as an appearance.

(2) An appearance before the *Board* will generally be an informal proceeding, and the *Rules of Procedure* do not apply.

(3) At an appearance:

(i) the *Board* may ask any question and admit any evidence it thinks fit,

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(ii) witnesses may be called, examined and cross-examined with the consent of the *Board*, and (iii) the applicant and any witnesses may be required to give evidence under oath or affirmation. **9417. Decisions** (1) Where an applicant requests that an opportunity to be heard be conducted by exchange of written submissions, but fails to deliver submissions within the required time, the *Board* may make its decision on *IIROC* staff's recommendation and submissions without further notice or delay. **9418. – 9499. Reserved.**

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RULE 9500

ALTERNATIVE DISPUTE RESOLUTION

9501. Introduction

(1) Rule 9500 sets out the requirements relating to a *Dealer Member's* obligation to participate in arbitration programs and ombudsman services approved by *IIROC*.

9502. Participation by a Dealer Member in arbitration

(1) The *Board* may approve, with terms and conditions, one or more arbitration programs or organizations for *Dealer Members* or any class of *Dealer Members*.

(2) A *Dealer Member* must participate in or become a member of an arbitration program or organization approved by the *Board*.

(3) The participation of a *Dealer Member* in, or any decision made under, an arbitration program will not affect *IIROC's* authority, or prevent it from exercising that authority under *IIROC requirements*.

(4) If a client requests arbitration, the *Dealer Member* involved must submit to binding arbitration in any dispute between the *Dealer Member* and the client.

(5) The *Dealer Member* must comply with the arbitration program's requirements and decisions.

9503. Participation by a Dealer Member in an ombudsman service

(1) A *Dealer Member* must participate in an ombudsman service approved by the *Board*.

(2) The participation of a *Dealer Member* in, or any recommendations made by, an ombudsman service, will not affect the authority of *IIROC* or prevent it from exercising that authority under *IIROC requirements*.

(3) On a client's request, any dispute between a *Dealer Member* and the client must be submitted to the approved ombudsman service.

(4) The eligibility of a dispute for review is made by the ombudsman service based on its terms of reference.

(5) A *Dealer Member* must comply with the ombudsman service's requirements.

(6) The ombudsman's recommendations are non-binding on each participant in the service.

9504. Dealer Members must provide information to ombudsman service

(1) The ombudsman service may ask a *Dealer Member*, or an *Approved Person*, or other *person* subject to *IIROC's* authority for information or *records* relating to a review or investigation.

(2) The *person* in subsection 9504(1) must submit the information requested in the form and manner, including electronic, as prescribed by the ombudsman service.

(3) The ombudsman may not provide *IIROC* with any information or *records* of its service received relating to a review or investigation, except information relating to an *IIROC investigation* or

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	hearing allegation that: (i) the *Dealer Member* provided information to the ombudsman service it knew was false and intended to mislead the ombudsman, or (ii) the *Dealer Member* failed to provide information as required by section 9504.
9505. –9699. Reserved.	

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RULE 9700

CANADIAN INVESTOR PROTECTION FUND

9701. Introduction

(1) Rule 9700 sets out the authority and obligations of *IIROC*, and the obligations of *Dealer Members*, to the *Canadian Investor Protection Fund*.

9702. Agreement between the Canadian Investor Protection Fund and IIROC

(1) *IIROC* is authorized to enter into and perform its obligations under industry agreements or other arrangements with the *Canadian Investor Protection Fund*.

(2) The authority exercised under subsection 9702(1) must be, in the discretion of the *Board*, consistent with the role and mandate of *IIROC* and any agreements in place between *IIROC* and the *Canadian Investor Protection Fund.*

(3) The industry agreement between *IIROC* and the *Canadian Investor Protection Fund* may be amended from time to time.

(4) The *President*, his or her staff or any other person designated by the *Board* is authorized to execute and deliver any such agreements, or make any such arrangements, and to do all acts and things as may be necessary to permit *IIROC* to exercise its rights or perform its obligations in connection with its agreements with the *Canadian Investor Protection Fund*.

9703. Industry agreements or other arrangements

In respect of any industry agreements or arrangements entered into by *IIROC* in accordance with section 9702, a *Dealer Member*:

(1) must promptly pay *IIROC* its regular and special *Canadian Investor Protection Fund* assessments,

(2) must provide to the *Canadian Investor Protection Fund* or to *IIROC* all information required to assess its financial condition or *Canadian Investor Protection Fund* risk of loss,

(3) acknowledges and consents to the exchange of information relating to its operations, including information pertaining to its *employees* or *Approved Persons*, shareholders or any other *persons* permitted by law, or its client's affairs, between *IIROC* and the *Canadian Investor Protection Fund*, in accordance with any information sharing agreements or arrangements made by them,

(4) must permit the *Canadian Investor Protection Fund* to conduct reviews of its operations in respect of Industry Agreement Reportable Conditions or other agreement or arrangement Reportable Conditions and shall fully cooperate with the *Canadian Investor Protection Fund*, and its staff and advisers, in connection with such reviews,

(5) must comply with such actions as the *Canadian Investor Protection Fund* may direct *IIROC* to take, or with such actions as *Canadian Investor Protection Fund* may take on behalf of *IIROC* as authorized.

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9704. – 9999. Reserved.